DERWENT LONDON

Annual Results 2020 Announcement

DERWENT
LONDON

11 March 2021

Derwent London plc ("Derwent London" / "the Group")

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020
WELL POSITIONED FOR A CHANGING WORLD

Financial highlights

- Total return of -1.8%, from 6.6% in 2019
- EPRA net tangible assets[1] 3,812p per share, down 3.7% from 3,957p in December 2019
- Gross rental income of £202.9m, up 5.8% from £191.7m
- Net rental income of £174.3m, down 2.1% from £178.0m, after £14.2m impairment and write-offs
- Rent collection for 2020 now 92% plus 5% under agreed payment plans and 3% granted rent-frees
- EPRA earnings of £111.0m, or 99.2p per share, down 3.8% from 103.1p in 2019
- Proposed final dividend raised 1.9% to 52.45p
- Full year dividend of 74.45p per share from 72.45p, up 2.8%
- Two debt facilities arranged or extended totalling £550m
- Interest cover 446%, loan-to-value ratio of 18.4%
- Undrawn facilities and cash of £476m, from £511m in December 2019

Portfolio highlights

- Total property return of 0.3%, compared to our benchmark index[2] of -2.4%
- EPRA vacancy rate rose to 1.8% from 0.8% in December 2019
- 2021 lease expiries reduced from 26% of passing rent to 17% at year end, now 13% of which 5% relate to future projects
- Completion of 80 Charlotte Street W1 in June, our first net zero carbon development
- 410,000 sq ft under construction – 61% pre-let
- Committed to 297,000 sq ft redevelopment at 19-35 Baker Street W1, on site H2 2021
- £153m of property disposals completed
- Portfolio valued at £5.4bn, an underlying fall of 3.0%
- Underlying valuation uplift on the developments of 5.3%
- True equivalent yield of 4.74%, tightening by 3bp
- 2.8% decrease in ERV in 2020

Net zero carbon progressed

- Committed to becoming a net zero carbon business by 2030 in February 2020
- Published pathway to become net zero carbon business in July 2020

Outlook

- Our differentiated product is well placed to outperform as lockdown eases
- Our guidance is for 2021 average ERVs on our portfolio to move 0% to -5%
- Average investment yields on our portfolio expected to remain firm

[1] Explanations of how EPRA and underlying figures are derived from IFRS are shown in note 24
[2] MSCI IPD Central London Offices Quarterly Index

John Burns, Chairman, commented:

"From its modest beginnings, Derwent London has grown into a leading London office investor, focused on sustainable, high quality and design-led space. This statement is my last after 37 years with the Company and I am proud of the team who have risen to the challenges of the last year. Whilst economic recovery will take time, we now have an EU trade deal and an effective vaccination programme. I have every confidence London will continue to be one of the world's best cities for living, recreation, education and business. I leave Derwent London in great shape with an excellent team, a balanced portfolio and strong finances and have every confidence in its future success."

Paul Williams, Chief Executive, commented:

"It has been an unprecedented year for London and its communities, with many businesses recognising the importance of a return to the office for combined learning, creativity and productivity. Recent events have accelerated changes required by our occupiers with a growing emphasis on wellbeing and environmental performance. With our innovative brand of well-designed, adaptable offices and our continued focus on responding to climate change, I believe Derwent London is well positioned to meet the changes in the modern workplace."

Webcast and conference call

There will be a live webcast together with a conference call for investors and analysts at 09.00 GMT today. The audio webcast can be accessed via www.derwentlondon.com

To participate in the call, please register at www.derwentlondon.com

A recording of the conference call will also be made available following the conclusion of the call on www.derwentlondon.com

For further information, please contact:

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CHAIRMAN'S STATEMENT

2020 was an extraordinary year dominated by the Covid-19 pandemic. We experienced our first national lockdown in March and, almost a year later, we are now in our third and hopefully last. The costs to the UK economy are considerable and London has been severely affected with its retail and entertainment venues closed and most office occupiers working from home. Recovery will take time, but 2020 ended with the UK leaving the EU with a trade deal and, at the start of the new year, the roll out of a national vaccination programme. The success of this should see higher levels of economic activity later in 2021. There is now a clear strategy for relaxing the lockdown and the first steps have been taken on the roadmap to lifting all lockdown restrictions by 21 June, providing the data allows it.

In difficult circumstances our teams have been working extremely hard to ensure we have continued to function effectively and to respond quickly to support our occupiers and other stakeholders. During 2020, we significantly reduced the amount of income due for expiry in 2021 through tenant engagement. From an exceptionally low starting point, our EPRA vacancy rate remains low but has risen in the last year and we expect it to increase further in 2021. Our on-site developments are progressing well after some minor delays in the first lockdown. Climate change will remain the major global challenge of our time, which is why we made the significant commitment to become a net zero carbon business by 2030 and, in July 2020, we published our detailed pathway showing how we propose to achieve this.

Our developments, including 80 Charlotte Street W1 which completed in June, led to gross rental income rising 5.8% to £202.9m. However, this growth was more than offset by increased costs and Covid-related impairment charges which saw our net rents fall 2.1%. As a result, EPRA earnings per share fell 3.8% to 99.2p. Our £5.4bn portfolio, with good performance from our recent schemes and its low retail exposure, proved relatively resilient and outperformed its benchmarks, with underlying values falling 3.0%. This saw EPRA net tangible assets (NTA) per share fall 3.7% to 3,812p. Overall, the Group reported a total return of -1.8% as the modest decline in value of the portfolio exceeded our dividends and other retained income.

We recognise the importance of the dividend for our shareholders, and we propose raising the final dividend by 1p to 52.45p. This will be paid on 4 June 2021 to shareholders on the register of members at 30 April 2021. The final dividend would take the full year's payout to 74.45p, an increase of 2.8%. The increase was based on the level of dividend cover, the longer-term outlook and our obligations to our wider stakeholders.

This statement is my last after 37 years with the Company, either as Chief Executive or latterly as Chairman for the past two years. From its modest beginnings, Derwent London has grown to become one of the leading London office providers. It has done this, in part by focusing on what it knows best and by always striving for improvement.

A key part of its success is the Derwent London team, whose members have complemented and supported each other so well. It is not easy to achieve this and much credit must go to our Chief Executive, Paul Williams, together with Executive Directors Damian Wisniewski, Nigel George and David Silverman. They have helped shape the Group over time and will continue to lead it into the future. Having worked with them for many years, it has been no surprise to me to see how the Group has ably navigated the difficult circumstances in the last year. I wish to thank all the staff at Derwent London for their exceptional work in 2020 and the wonderful support that they have given me over the years.

A special 'thank you' is owed to Simon Silver, my co-founder, who announced in August 2020 his intention to retire from the Board, stepping down on 26 February 2021. He has invested his energy in ensuring our projects are innovative and of the highest quality. He has built up strong relationships with some very talented architects and has done so much to establish our design-led Derwent London brand. He will continue to support the business as a consultant until 31 December 2022, working alongside our established and talented team as we create the next generation of office space.

I am delighted with two recent board appointments. Mark Breuer, who brings significant financial expertise, was appointed as a Non-Executive Director and Chairman designate on 1 February 2021 and, as part of our succession plans, will take over as Chairman in May. Emily Prideaux was appointed as Executive Director on 1 March 2021. Emily has been with the Group since 2010 and has played an important role in our leasing team ever since, leading it for nearly four years. Both appointments will prove valuable additions to a strong Board.

With an excellent team, a balanced portfolio and strong finances, the Group is very well placed to meet the challenges and take the opportunities that are likely to arise over the next few years. London will continue to be one of the world's best cities for living, recreation, education and for business. With the longer-term focus on everchanging office occupation trends and climate change, our purpose of helping improve and upgrade the stock of office space in central London while providing benefits for all our stakeholders, appears as relevant today as when the business was created.

I believe that Derwent London can look ahead with confidence as it continues to provide the offices, amenities and surrounding environments that London businesses require.

CHIEF EXECUTIVE'S STATEMENT

Derwent London started 2020 in a positive mood, seeing robust occupier demand and keen investment interest, though few then imagined how events would unfold. Covid-19 has had a significant impact on everyone, but given the circumstances, I am pleased by the resilience the Group has shown.

It was an unprecedented year but, with a clear roadmap out of lockdown in place, we can now look forward to business confidence returning and our offices and city centres being vibrant again. There is much to be done and, like the economy, the London office market is in a much weaker position than one year ago. The Government's continued support will help strengthen the recovery but it will take time before confidence is fully restored.

We supported our stakeholders, made good business progress and responded to market changes by focusing on reducing our near-term lease expires. Our 2021 lease expiries have fallen from 26% of cash rent at the start of 2020 to 17% at year end and now at 13% following lease re-gears and the sale of Johnson Building EC1. We made good progress with our development programme, completing 80 Charlotte Street W1 and committing to start our next major scheme at 19-35 Baker Street W1 later this year. We recycled assets, completing on £153m of disposals and have ensured that our financial position remains strong. Importantly, we made continued progress on sustainability following our green financing in 2019. In February 2020, we committed to becoming a net zero carbon business by 2030 and subsequently launched our detailed pathway in July.

Further strengthening our relationships

In response to the pandemic, we quickly introduced Covid-19 compliant protocols in our buildings, and our property management teams have supported our occupiers as restrictions changed over the year. In relation to our own office, we adopted an 'agile' working policy several years ago so were well prepared to work remotely, though it is increasingly clear to us that virtual meetings are no match for face-to-face contact. No staff were placed on furlough, all employees below Director level received their full pay and benefits throughout the year and we have not accessed any government support.

This period has clearly demonstrated the value of our long-lasting relationships which have continued to strengthen as we supported each other. We provided a 25% service charge discount across the whole portfolio for two rent quarters and, for those most in need, we deferred or waived some rents. We increased our community and sponsorship donations by 179% to £1.1m including the temporary use by NHS staff of 16 flats at Charlotte Apartments. Other relationships have proven equally important. Work on our three major development sites paused in March, but the contractors recommenced work within the new protocols relatively quickly and, since then, good operational progress has been maintained. We have also extended or refinanced £550m of the Group's revolving credit facilities.

Derwent London's people

I am enormously proud of our Derwent London team and what they have achieved this year. Many of my colleagues have worked very long hours to ensure we met our operational objectives and the needs of all our stakeholders. The convenience and efficiency of office contact was replaced by online meetings and fortnightly Group town hall meetings. Maintaining a work-life balance can be difficult, and the focus has been on the wellbeing of our teams. I would like to thank them for responding to the challenges so well, and also our stakeholders for the continued support they give the Group.

I would like to give special thanks to John Burns, our Chairman, and Simon Silver, Executive Director, both of whom, as part of our succession planning, retire from the Board this year. They have helped build an enduring brand and developed a strong team with long-standing relationships. Simon will stay on as a consultant for two years, so we will continue to benefit from his advice as he works alongside our experienced team. We have made two excellent Board appointments: Mark Breuer as Chairman Designate and Emily Prideaux as Executive Director and I am confident in their future contributions.

The London office market

The pandemic saw a marked slowdown in office leasing activity as occupiers adopted a 'wait and see' approach: the overall vacancy rate for the London office market doubled to 8.1%, rents fell and incentives moved out. These headlines hide a more complex market with the majority of the vacancy concentrated on poorer quality buildings or second-hand space. The UK has left the EU with a trade deal, but we have yet to see the longer-term impacts and the financial services relationships are still to be determined. This is important for the City and Docklands office markets, where we are not located, but in the future the UK will have some more flexibility to make its own rules.

Whatever the outcome of these talks, London is a major global city with a rich and diverse culture and has a record of adapting well to change. It remains a great place to live and work. These attributes have given rise to a large and relatively young talent pool, which benefits a broad range of businesses. In recent years demand has come from a number of growing innovative sectors and this remains the case with Tech, Digital Media and Life Sciences companies looking to expand.

Over the last year, office demand has been particularly affected by both low economic activity and the enforced and widespread requirement to work from home. The latest government forecast predicts that economic activity will recover substantially over the next two years, as lockdown restrictions ease and confidence improves.

We are increasingly hearing business leaders recognising the value of the role offices play in supporting their culture, collaboration and growth. We also expect more people will work from home at least some of the time as businesses adopt more hybrid working practices. This is an acceleration of an existing trend seen prior to the pandemic. However, the impact on demand is more complex and will take time to play out.

This message was reinforced by our recent tenant survey which covered a sample of our major tenants representing over 50% of our 'topped-up' rental income. It found that all respondents were keen to return to their offices, views which appear to have strengthened since our previous survey in summer 2020. Collaboration, social interaction and employee wellbeing are high on the list of what occupiers missed most, but levels of productivity and mentoring have been of increasing concern as remote working has persisted.

We expect offices to be used differently. There will be fewer desks but more collaboration space, meeting rooms, video conference facilities and other amenities. There will also be increasing emphasis on mental health, wellbeing and environmental performance. There will be less 'max-packing' going forwards. Looking ahead in respect of changing working practices, we do believe businesses will adopt more agile working practices and, whilst we think this may reduce overall office demand to some degree, we do not believe the impact will be significant.

The buildings we create have the adaptability to meet these evolving trends and it has been very interesting to see how our occupiers have been working on their plans for change. Buildings that are unable to meet these objectives will suffer in value unless they can be redeveloped or repurposed.

Unlike the letting market, the investment market saw a strong final quarter, with investors backing London's unique attributes and with London office yields offering good value compared to other European cities and alternative asset classes. Overseas demand remains strong, with Asian and Continental European investors prominent at the end of 2020. CBRE estimate that there is between £40-£45bn of potential demand circling London offices. We expect activity to pick up once the lockdown lifts.

Outlook

As restrictions ease, economic activity should start to improve. Concern over the environment and climate change is now recognised as our most important global issue but also represents an opportunity for forward-looking businesses. This year Glasgow will host COP26 which will highlight the necessary responses. However, in the short term, it is the pace of economic recovery that will be the most important determinant of the London office market's performance.

New office supply is anticipated to remain constrained. Larger businesses are likely to focus on good quality space and, as there is less availability for these properties, we expect rents here to hold up. Older and smaller units, where there is greater availability, may prove more vulnerable. As such, we expect overall vacancy levels will continue to rise but will remain lower in the West End than the City.

Our portfolio is weighted towards this adaptable and high quality space, with most of the remainder comprising our current and future projects. This is the raw material that can become the high quality buildings of the future. Allowing for this mix, and given that retail and hospitality represents only 9% of the portfolio, we estimate our average 2021 ERVs will move in the range of 0% to -5% but we may see a particularly wide spread of performance between our different properties. Beyond this, rents could bounce back relatively quickly along with the economy. We expect our investment yields to stay firm or tighten for the better quality properties, as the positive yield gap with alternative assets remains wide despite the recent weakness in bond prices.

Although we are on the path to recovery, the effects of the lockdown together with our policy of recycling some of our mature assets, may impact our short term EPRA earnings and dividend growth rates. We believe these will recover relatively quickly as the economy grows, with the delivery of our value-adding developments and through income-producing acquisitions.

We continue to evolve our designs to ensure we have the right product for today's occupiers, and our next major development commences on site at 19-35 Baker Street W1 later this year. This innovative, adaptable and environmentally outstanding project will take our on-site developments to over 700,000 sq ft. On completion and letting, these schemes are estimated to create a further £131m of development surpluses. Part of our strategy is to make new acquisitions and we have the financial capacity to fund these as well as our substantial regeneration programme. We will also continue to upgrade our portfolio and explore renewable energy options to meet our net zero carbon commitments. This should ensure that we continue to deliver above average long-term returns.

CENTRAL LONDON OFFICE MARKET

See Appendix 1 for supporting graphs

London's economic outlook

At the start of 2020 the outlook for the London office market was positive; the vacancy rate was low, demand was good and the supply pipeline was significantly pre-let. The pandemic has brought substantial economic contraction with the UK's GDP falling 9.9%, a hiatus in letting activity and has forced many people to work from home. For the first time in many years, London's job numbers have fallen. The future is still uncertain and some of the final arrangements with the EU undecided, but we are now on a roadmap that should see the London economy start to recover as the year progresses. On this basis we can look forward with some optimism.

London's economy is linked to both the domestic and international markets. Consensus expects economies to recover as health concerns reduce, with the UK economy predicted to grow 2-5% in 2021. In February 2021 the Prime Minister set out a four-step roadmap to lifting restrictions which, if all goes to plan, would see all social restrictions lifted by 21 June. Government projections indicate that the economy should recover to pre-Covid-19 levels in 2022.

The pandemic's impact on the central London office market

Take-up has been running below previous levels with many businesses adopting a 'wait and see' approach until they have a clearer view of the future. This is reflected in CBRE's estimates of 2020 take-up at 5.6m sq ft, down 57% on 2019. The main sectors behind last year's activity were business and professional services 40%, TMT 20% and financial services and insurance 20%.

The low take-up contributed to the significant rise in 2020's overall vacancy rate from 3.9% to 8.1%. As in previous periods of weaker occupier demand, the City vacancy rate at 10.8% has risen faster and is higher than in the West End which is 5.8%. There has also been a significant increase in second hand and 'grey' space. CBRE defines second hand space as that which is not new, and for a number of years it has represented an increasing proportion of vacancy. In December 2020 it was 75% of the total, up from 69% a year earlier. Even more significant was the rise in tenant controlled or grey space which has risen over the same period from 26% to 35% of total vacancy.

Flexible office providers have been an important component of demand over the last five years, but over the course of last year we saw take-up from the sector more than halve to 6%. The pandemic and multiple lockdowns have certainly put the short-let business model under pressure which has already seen casualties among the more stretched businesses with potentially more to come. Longer term there will still be demand and we expect flexibly-let space to remain an important component of the London market.

Taking this into account, headline prime central London office rents fell 7.6% in the year and rent-free periods moved out from c.24 to 27 months on a typical 10-year lease producing a fall in net effective rents of c.10%.

In 2020, 4.7m sq ft of completed development space was added to the London market. This was only 66% of what was predicted at the beginning of the year. Looking forward there is 12.1m sq ft under construction which is slightly below last year's number despite the high number of schemes carried forward. Of this additional space, 42% is pre-let or under offer, which leaves about 7.0m sq ft available to let over the next three years. This represents c.3% of London's total office stock, a figure unchanged from previous years.

Given the market outlook, we expect the appetite for new development will reduce and there is evidence that a number of schemes were deferred in 2020. We believe development specific funding may prove harder to secure and that some schemes will become conditional on pre-lets. Conversely demand for better quality space will continue to promote new activity, which should mean that well-funded developers remain active.

The London property market will take time to recover and we have yet to see the impact of the withdrawal of the significant levels of current government support. However, Knight Frank estimate that there is 7.7m sq ft of active demand and we have seen an increased level of activity since the recent roadmap was announced.

London has a rich culture and a large, diversified and relatively young talent pool which benefits many businesses. It has proven adaptable in the past with new industries replacing declining ones. Industries looking to take space in London are Life Science, Artificial Intelligence (AI), Fintech, Digital Media as well as the existing Tech Titans.

The impact of working from home

As well as their impact on the economy, multiple lockdowns over the last year have forced many people to work from home. We anticipate that businesses will embrace positive change as we come out of the pandemic and will adopt agile working policies on a greater scale. This is not the same as full-time working from home. A more agile workforce does not necessarily mean a reduction in overall footprint. It will vary from business to business, is quite complex and will take time to fully determine. To date, we have found in our buildings these policies tend to lead to a reconfiguration rather than a reduction in space requirements. Overall demand for offices will inevitably be affected by both economic factors and workplace strategies such as a reduction in workplace densities and a move away from hot-desking. However, it is peak occupancy that will determine overall space requirements. Whilst we see that there may be a short-term reduction in demand, we do not believe this will be significant or long-term.

This is supported by the results of our own recent tenant survey in which we spoke to business leaders representing over half our rental income. 82% of those surveyed agreed that they will be adopting more agile working practices. We also learned that almost half (44%) of those interviewed will be reducing overall office densities, meaning more space will be required for each individual. In terms of headcount, over the past year 39% of those interviewed have increased their headcount whilst 45% have reduced – the remaining 16% have seen no change. Encouragingly, looking ahead to the next 6-12 months, 51% anticipate headcount growing with only 8% anticipating a decrease, 18% expecting equilibrium and 23% undecided.

One clear message that came from the survey was that everyone asked was looking forward to getting back to the office.

Attitudes appear to have changed the longer the lockdowns have continued, the rhetoric has shifted and more of our occupiers are highlighting the challenges they face from being away from the office. These can be summarised as:

- **Talent**: this is as important as ever. Office quality, amenities and surrounding areas play an important part in staff recruitment, personal development and retention.
- **Culture & identity:** a business's culture and identity is very hard to convey and even harder to build from scratch in a virtual world. The workplace is an opportunity to showcase company culture, values and identity. This is important for employees and customers alike.
- **Communication, collaboration and social interaction:** are greatly missed and are not easy to replicate through remote working, especially with new colleagues.
- **Wellbeing:** an office can help promote this through face-to-face interaction and create a more distinct work-life balance.
- **Productivity:** space shared with other team members helps inspire colleagues to produce a much more powerful response to complex, challenging and creative tasks.

A flight to quality

We believe a two-tier market is developing with occupier demand, particularly for larger businesses, focused on the best buildings. These need to provide generous and adaptable spaces as exemplified by Derwent London's 'long-life loose-fit' approach. In addition, our projects have expansive reception areas, roof terraces and amenities such as cafés, ample bike storage and showers.

Today's occupiers are also focused on health and wellbeing and the impact their workplaces are having on the environment and climate change in particular. These latter aspects are much better understood today through the increasing use of digital technology in new buildings to monitor air quality and energy consumption in real time.

Property management is another important component especially for multi-let buildings. Occupiers are expecting a greater sense of customer service, hospitality and community both inside and outside their buildings. This is becoming increasingly important as leases have generally become shorter with occupiers keen to get more flexibility on at least some of their requirements.

Space that cannot meet the more exacting standards of today's occupiers may prove slower to let and may need to be redeveloped or repurposed. We expect this existing trend to have been reinforced by the lockdowns as businesses emerge with adjusted requirements, our special product and wider portfolio initiatives standing us in good position to benefit.

Investment demand expected to remain firm

Investment activity in 2020 at £7.6bn was down a third on 2019. However, there was a strong final quarter totalling £4.3bn or 57% of 2020's total activity. Demand has come from Asia and Europe representing 61% of the total, whereas UK property companies and North American investors were only 8% in total.

The London office investment market remains attractive globally for its transparency, liquidity and its yields. The recent CBRE EMEA 2021 Investor Intentions Survey ranked London as the number one city for investment. International interest rates and bond yields remain at very low levels despite some recent price moves. The strongest demand remains for modern buildings let on long leases and there is also good interest in development sites. There is no evidence yet of any bank driven distress in the office market. CBRE estimate that there is currently £40-45bn of equity circling for London offices which compares to £7.1bn of London office buildings currently available. In the short term, during lockdown, activity is likely to be lower but interest remains strong so we expect a significant pick up in transactions as restrictions are lifted.

Our portfolio's rental and yield outlook for 2021 is included in the Chief Executive's statement above.

VALUATION

See Appendix 2 for supporting graphs and tables

The Group's investment portfolio was valued at £5.4bn as at 31 December 2020. There was a deficit for the year of £178.5m, which after accounting adjustments of £19.0m (see note 11), gives a reported deficit of £197.5m. Underlying values decreased 3.0%, compared to a 3.9% uplift in 2019. However, we significantly outperformed our benchmarks: the MSCI IPD Quarterly Index for Central London Offices and the wider All UK Property Index which were down 5.6% and 6.6% respectively. The Royal Institution of Chartered Surveyors relaxed the requirement to add uncertainty clauses to central London office valuations, an obligation at the half year.

By location, our central London properties, which represent 99% of the portfolio, dropped in value by 2.9% with the West End down 3.3% and City Borders down 2.1%. Our Scottish holdings, representing just 1% of the portfolio and principally retail, declined 11.2%.

Using EPRA metrics, our rental values declined 2.8%, as a subdued leasing market impacted rents. The relatively small retail and hospitality element, 9% by income, was most affected, down 18.3% as London was in lockdown for much of the year. The office portfolio was down a more modest 1.2%, with modern quality product generally holding up well but the lesser quality buildings, mainly those earmarked for redevelopment or major refurbishment, more negatively impacted. By location, City Borders' ERVs were down 1.8%, more resilient than the West End down 3.3%.

The portfolio's EPRA initial yield rose by 30bp to 3.7% which, after allowing for the expiry of rent frees and contractual uplifts, goes to 4.8% on a 'topped-up' basis, a 10bp increase over the year. Looking at the true equivalent yield, this moved in marginally during the year by 3bp from 4.77% to 4.74%. This now includes 80 Charlotte Street following completion of the development in June. Given its quality, size (10% of the portfolio) and long-term income stream, it had a significant impact on the portfolio's yield. If excluded, the portfolio's equivalent yield would be 4.80%, a 3bp expansion over the year. This reflects weakening yields on the retail, shorter-term income and leaseholds.

Our total property return of 0.3% compares favourably to the MSCI IPD Index which delivered negative returns of -2.4% for Central London Offices and -2.3% for UK All Property. This outperformance came from the release of development surpluses, the run-off of rent-free periods from earlier developments, such as Brunel Building, which completed in 2019, and strong asset management activity extending leases.

At the start of the year, we were on site with three major developments, 80 Charlotte Street W1, Soho Place W1 and The Featherstone Building EC1. These were valued at £848.3m in December 2020 and delivered a 5.3% uplift as they progressed and with further pre-let/forward sales commitments. Excluding these developments, the underlying portfolio movement was down 4.4%. In June, 80 Charlotte Street, our largest development to date, completed and was handed over to its occupiers, principally Arup and Boston Consulting Group. There is only a small element of space left to let and there has been good progress made on the disposal of the apartments in this mixed-use development. This project has delivered a profit on cost of 27%. The two developments currently on-site, valued at £306.0m, represent 6% of the portfolio. This year we will add our next major redevelopment project, 19-35 Baker Street W1, to this category and more detail on this and other projects can be found under 'Development and Refurbishment' below.

Our contracted annualised cash rent at 31 December was £189.2m. It increased 5.3% over the year, reflecting contracted rental uplifts and development income from completions which more than offset the impact of vacancies and the income lost from disposals. The portfolio's ERV of £291.2m includes £102.0m of potential reversion. Looking at the increase in more detail, £58.0m is contracted through rent-free periods and fixed uplifts, which under IFRS accounting treatment is already mostly incorporated in the income statement. Our on-site developments and major refurbishments could add a further £33.2m to future income, of which £17.0m or 51% is already pre-let. Despite the difficult economic environment, our vacancy rate remains low at only 1.8% (2019: 0.8%), representing £5.0m of reversion. The £5.8m balance is from smaller refurbishments and future lease events.

PORTFOLIO ACTIVITY

See Appendix 3 for supporting graphs

Asset management

We value our long-term and positive relationships with our customers and this has been particularly important for the business over the last twelve months. In the last few years we have invested in developing and upskilling our asset management and property management teams as a key point of contact with our customers. During 2020 they have been working with our occupiers and we are delighted with the results of this proactive engagement.

The initial focus has been very much on the health and safety at our buildings, of the people that use them and their surroundings. We assisted our occupiers returning to their offices in accordance with the relevant guidelines. We have seen exceptional levels of co-operation and collaboration which should further cement our longer-term relationships. To help support all our customers, we reduced our service charges by 25% for two quarters and we achieved additional cost savings. We deferred or waived rents for those most in need. The latter actions have been primarily focused on the retail and hospitality sectors, which help, in normal times, make the ground floors of our buildings such vibrant places.

We entered the year with limited space available and this, as well as market conditions, meant that our new letting activity was relatively low.

Letting activity 2020

	Let		**Performance against Dec 19 ERV (%)**	
	Area sq ft	**Income £m pa**	**Open market**	**Overall[1]**
H1	60,700	2.6	20.2	4.3
H2	74,700	4.1	0.0	(3.7)
2020	**135,400**	**6.7**	**6.0**	**(0.8)**

[1] Includes short-term lettings at properties earmarked for redevelopment

Our 2020 new letting activity totalled £6.7m which was 0.8% below December 2019 ERV but, excluding short lettings, was 6.0% above. The majority of the activity related to existing tenants demonstrating the importance of long-standing relationships. TransferWise was our most significant transaction, where as well as letting 17,250 sq ft we extended the existing lease on 31,700 sq ft so that their occupation has increased by 54%.

Principal lettings in 2020

Property	Tenant	Area sq ft	Office rent £ psf	Total annual rent £m	Lease term Years	Lease break Year	Rent-free equivalent Months
Q1							
80 Charlotte Street W1	Lee & Thompson	13,100	70.00[1]	0.8	11	-	26
Angel Building EC1	Expedia	6,550	40.30[2]	0.3	12.5	5	9
Q2							
Tea Building E1	Buckley Gray Yeoman	4,800	70.00	0.3	5	-	9
Q3							
88-94 Tottenham Court Road W1	UCL	14,100	58.50	0.8	10	5	12, plus 6 if no break
Soho Place W1	Apollo	5,100	Confidential	Confidential	15	-	Confidential
Q4							
Tea Building E1	TransferWise	17,250	59.50	1.0	5	-	13
Tea Building E1	New Wave Capital	7,900	61.00	0.5	4	-	2
		68,750					

[1] £70 psf on ground, £47.50 psf on lower ground [2] Reception area now rentalised as offices let entirely to Expedia

The bulk of last year's asset management work focused on rent reviews, renewals and regears. Our rent reviews saw a 9% uplift over the previous rent. Major reviews included space at 1-2 Stephen Street W1 and Turnmill EC1. At the beginning of the year, 10% of our cash rent was due to expire in 2020 with a further 26% in 2021. Many of these expiries related to potential developments, but we have since opted to defer a couple of these through extensions and re-lettings. This demonstrates the optionality within our portfolio. We have also removed some tenant breaks to extend our income.

Asset management 2020

	Area '000 sq ft	Previous rent £m pa	New rent £m pa	Uplift %	New rent vs Dec 19 ERV %
Rent reviews	192.0	11.2	12.2	9.3	(1.0)
Lease renewals	251.0	10.9	11.6	6.0	(11.7)
Lease regears	281.0	14.0	15.1	7.5	(0.9)
Total	**724.0**	**36.1**	**38.9**	**7.6**	**(4.4)**

Of the 2020 expiries, 22% related to developments, and of the remainder we retained or re-let 87%. This leaves 13% available which contributed to the rise in the EPRA vacancy rate from 0.8% to 1.8%. The other major contributor to the increase was at The White Chapel Building E1 where the lease with Fotografiska was surrendered.

Significant progress was also made on our 2021 expiries so that they fell from 26% of cash rent to 17% during the year ended 31 December 2020 and have since reduced further to 13%. This included short term lease extensions where we are keeping buildings occupied prior to redevelopment such as 19-35 Baker Street W1 and Holden House W1. We also extended a number of leases so that 43% of our cash rent now expires after five years compared to 30% one year ago. The latter included UCL at 88-94 Tottenham Court Road W1, City University at 88 Rosebery Avenue EC1 and the Secretary of State at 401 St. John Street EC1.

We have made further progress in 2021 with Government Digital Services committing to a further five years on one floor at The White Chapel Building E1 and the completion of the disposal of Johnson Building EC1 which had a number of leases expiring in 2021. However, we do expect to see our vacancy rise in 2021 reflecting the continuing economic uncertainty.

Investment activity

The Group's strategy is to look to recycle assets with lower growth potential while reinvesting the proceeds in our developments and new acquisitions. During the year we sold one major property and committed to sell two more. The disposal of 40 Chancery Lane WC2 was covered in last year's Report and Accounts and we give more detail of the disposal of 2 & 4 Soho Place W1 under 'Development and Refurbishment' below. In December 2020 we exchanged contracts to dispose of Johnson Building EC1 for £170m, and that disposal completed in January 2021. Johnson Building was one of our first generation of refurbishments completed 15 years ago.

Major disposals announced in 2020

Property	Date	Area sq ft	Gross proceeds £m	Gross proceeds £ psf	Net yield to purchaser %	Rent £m
Completed						
40 Chancery Lane WC2	Q1	103,700	121.3	1,170	4.25	5.5
80 Charlotte Street W1 – private residential	Multiple	16,050	29.7	1,850	-	-
80 Charlotte Street W1 – affordable housing	Q2	9,470	2.5	270	-	-
Total (Completed)		**129,220**	**153.5**	**1,190**	**-**	**5.5**
Exchanged						
2 & 4 Soho Place W1	Q3	18,400[1]	40.5	2,200	-	-
Johnson Building EC1	Q4	192,700	170.0	880	4.1[2]	7.3
Total (Exchanged)		**211,100**	**210.5**	**1,000**	**-**	**7.3**
Total		**340,320**	**364.0**	**1,070**	**-**	**12.8**

[1] Office space
[2] Net yield decreases to 2.5% after 40% of income expires in 2021

We completed one major acquisition in February 2020, Blue Star House in Brixton SW9 for £38.1m before costs, which was covered in the 2019 results.

Major acquisition in 2020

Property	Date	Area sq ft	Total cost £m	Total cost £ psf	Net yield %	Net rental income £m pa	Net rental income £ psf
Blue Star House SW9	Q1	53,750	38.1	710	1.9	0.8	14.50[1]

[1] Rent on occupied office floorspace

DEVELOPMENT AND REFURBISHMENT

See Appendix 4 for supporting graphs and tables

We continue to create modern and adaptable spaces. Office users are going through a period of accelerated transformation and are increasingly aware of climate change. Covid-19 initially brought some delays, pushing completions out up to 3 months but our on-site projects are performing to the revised timetable.

In June 2020, we completed our first net zero carbon development at 80 Charlotte Street W1 totalling 377,000 sq ft. Our profit on cost for this project was 27%. The offices, 85% of the total space, are fully let with the tenants fitting out. The bulk of the building is let to Arup and the Boston Consulting Group for twenty years and at least twelve years, respectively. We have sold 17 of the 22 apartments available to sell at Asta House, and donated the use of 16 rental apartments at 80 Charlotte Street to the NHS for one year. We offset the 19,790 tonnes of residual embodied carbon produced by the project in line with our net zero carbon objectives. The offsets relate to a validated community reforestation project in East Africa.

The Group has two large developments under construction. Soho Place W1, comprising 285,000 sq ft, and The Featherstone Building EC1, totalling 125,000 sq ft. Both are due to be completed in the first half of 2022 and together are 61% pre-let or forward sold with capital expenditure to complete of £189m.

During 2021 Apollo exercised its option to take additional space at 1 Soho Place and we disposed of the long leasehold interest in 2 & 4 Soho Place, which comprises 18,400 sq ft of offices and a theatre pre-let to Nimax. This forward sale will raise £40.5m for the Group upon completion. As a result, the development is 87% pre-let or forward sold, with 36,000 sq ft of retail remaining to be let. While we are confident in the long-term attractions of this retail location sitting over the Elizabeth line station at the junction of Oxford Street and Charing Cross Road, we have lowered our retail rental expectations to £3.5m which is in line with the market. The overall profitability of the scheme has benefitted from the strong performance of the larger office element.

The Featherstone Building has an ERV of £8.1m and is our largest single letting exposure. This ‘long-life loose-fit’ space, next to our successful White Collar Factory, has adopted many of the features of its larger neighbour. These include concrete core cooling, opening windows and generous 3.1m floor to ceiling heights. The development will be net zero carbon, include ‘smart’ technology and wellness certified. Our main marketing campaign is scheduled for later in 2021, but there is early letting interest.

We are committed to commence the development of 19-35 Baker Street W1 in the second half of 2021. Contracts have been signed to convert our 55% joint venture interest with the freeholder, The Portman Estate, into a wholly owned 129-year lease on the commercial element, paying an initial ground rent of 2.5%. Our consideration for the enhanced interest is a mixture of property and cash, which includes pre-selling to them the retail and office space behind the new Baker Street building.

The scheme will comprise 217,000 sq ft offices, 28,000 sq ft retail and 52,000 sq ft residential. The total capital expenditure is estimated at £265m. As well as providing adaptable working spaces with generous 3.1m floor to ceiling heights and significant natural light, the office property will have all electric HVAC systems using air source heat pumps, openable windows, energy sensors and greywater harvesting. It will be our first NABERS UK certified scheme which will confirm that the building meets a specific level of energy performance in operation. In addition, we are creating new public realm, which will run through the centre of the site.

In late 2020 we applied for planning consent to redevelop Network Building W1. This project is targeting between 100-130,000 sq ft depending on whether it will be used for Life Sciences or office use. A decision is expected in H1 2021 and, if approved, work could start in 2022 for completion in 2025.

In addition to our large schemes, we are continually working on a number of smaller refurbishments. The two largest presently are: 6-8 Greencoat Place SW1 and Francis House SW1, both on site. Together they total 70,000 sq ft and form part of our 223,600 sq ft cluster of buildings. The refurbishment costs to complete are estimated at £19m and include replacing the old gas boilers with electric heating systems. This work will raise their EPC ratings from E and C, respectively to B.

We have a further 1.7 million sq ft or 30% of the portfolio earmarked for future development within our pipeline.

Major developments pipeline

Property	Area sq ft	Capex to complete £m[1]	Comment
Projects completed in 2020			
80 Charlotte Street W1	377,000	-	322,000 sq ft offices, 43,000 sq ft residential and 12,000 sq ft retail – 92% let / sold overall.
On-site projects completing H1 2022			
Soho Place W1	285,000	152[3]	209,000 sq ft offices, 36,000 sq ft retail and 40,000 sq ft theatre – 87% pre-let / pre-sold.
The Featherstone Building EC1	125,000	37	110,000 sq ft offices, 13,000 sq ft workspaces and 2,000 sq ft retail.
	410,000	**189**	
Forthcoming projects completing 2025			
19-35 Baker Street W1	297,000[2]	265	Consented. 217,000 sq ft offices, 52,000 sq ft residential and 28,000 sq ft retail.
Planning			
Holden House W1	150,000	-	Consented. Office and retail scheme.
Network Building W1	130,000	-	Planning application submitted. Potential to increase floorspace from 70,000 sq ft.
	280,000	**-**	
Total (excluding completions)	**987,000**	**454**	

[1] As at 31 December 2020 [2] Total area - Derwent London currently has a 55% share of the joint venture
[3] Includes remaining site acquisition cost and profit share to Crossrail

FINANCE REVIEW

See Appendix 5 for supporting graphs and tables

Financial overview

After a year of considerable hardship for many individuals, families, institutions and employers and during which our tenants have suffered from unprecedented business disruption, Derwent London has experienced its first negative annual total return in over a decade at –1.8% or -72p per share. However, our business has proved relatively resilient, our balance sheet and liquidity remain very strong and we have been able to provide financial and practical help to our stakeholder groups while paying an increased dividend.

The Covid-19 pandemic dominated the past year but 2020 was also notable for an ever-increasing global awareness of climate change, the long running trade negotiations between the UK and EU and, for our sector in particular, a spotlight on the nature of office occupation.

The occupational market for London offices was impacted by these factors with vacancy rates rising, ERVs under pressure and lease incentives increasing. We have also been rebalancing the portfolio with further disposals and a significant ongoing development pipeline. Furthermore, our focus has shifted over the past year to protecting income rather than capturing full reversion, and extending leases rather than seeking maximum rental levels. Against this background, the recent development completions at Brunel Building and 80 Charlotte Street produced an increase in gross rental income in the year. However, net rents and earnings were impacted by impairments, waivers and write-offs and this weaker occupational market has seen our property valuations decline. Though partly offset by development activity and continuing low yields, this has led to a 3.6% fall in total net assets.

The impact on operating cash flow in 2020 is also visible with £14.5m of rents deferred to 2021 under agreed payment plans as well as rent-free periods provided to those tenants most in need, particularly in the retail and hospitality sectors. So far, we have collected almost all these deferred amounts as they fall due and, with the prospect of an improving economic background in the UK through the rest of 2021, we anticipate that the operating cash flow for 2021 should be correspondingly stronger than usual. However, the property disposals made over the last year or so will have a short-term impact on earnings until we are able to replace the income with suitable new property acquisitions.

Strong relationships have also helped us extend, increase or refinance our two revolving credit facilities, together totalling £550m. Our leverage remains low and, though the impairments and waivers booked have caused irrecoverable property costs to rise, interest remains almost 4.5 times covered by net rents. As a result, the Group is particularly well placed to benefit from opportunities both within the existing portfolio and from potential acquisitions.

Each year, there is an increasing emphasis on environmental matters within Derwent London. We have taken further steps in 2020 to understand and mitigate the impact of what we do upon our environment now and in the future. As well as spending £103.2m of our Green Finance on projects which meet our climate change agenda, we have invested in carbon credits to support green projects around the world and to offset the embodied carbon in current and certain future projects. We have also published our pathway to net zero carbon which includes a commitment to carbon accounting.

The Brexit trade negotiations rumbled on through most of the year. An agreement was reached with the EU in December 2020 providing greater certainty in the future. We welcome this while recognising the increased burden of compliance on some businesses and the remaining areas still to be resolved such as financial services.

See Appendix 5 for financial highlights table

Property valuation decline reduces net asset value

Our business model is to drive income and create value through property regeneration predominantly within the central London office market. By creating modern and adaptable office space, we aim to achieve long-term growth in earnings and dividends with an important emphasis on our responsibilities as a business, particularly with regard to our stakeholders and to climate change. We believe that total return i.e. dividends paid plus net asset value growth per share measured using the new EPRA net tangible assets (NTA) measure, is the best single measure of our performance but we also focus on our property returns, recurring earnings, dividend cover and cash flow as well as a number of ESG metrics.

The main movements in EPRA NTA per share during the year compared to 2019 are summarised in the chart below. Though earnings have been affected by additional irrecoverable costs and the IFRS 9 impairments booked against receivable balances (see below), the main feature of 2020 was the negative revaluation movement of 176p per share compared to the positive 139p per share in 2019:

	2020 p	2019 p
Opening EPRA NTA	3,957	3,775
Revaluation movement	(176)	139
Profit on disposals	5	14
EPRA earnings	99	103
Dividends paid	(73)	(68)
Redemption of 2019 convertible bonds	-	(8)
Issue of 2025 convertible bonds	-	7
Interest rate swap termination costs	(2)	(2)
Other	2	(3)
Closing EPRA NTA	**3,812**	**3,957**

See Appendix 5 for ERPA NTA per share movements for the year

This has given rise to a 145p or 3.7% decrease in EPRA NTA per share during the year. Adding back the dividends paid gave a total return of -72p per share or -1.8%. As noted above, this is the first time since 2009 that Derwent London's total return has been negative, reflecting the impact that the year's events have had on office occupation levels, vacancy rates and rental values. Retail and restaurants make up c.9% of our portfolio by ERV but the particular difficulties that these businesses have experienced have also helped drive a substantial fall in retail values around the portfolio.

Property portfolio

Our property portfolio was independently valued at £5.4bn as at 31 December 2020 allocated across the balance sheet as follows:

	Dec-20 £m	Dec-19 £m
Investment property	5,029.1	5,174.3
Non-current assets held for sale	165.0	118.6
Owner-occupied property	45.6	45.3
Trading property	12.9	40.7
Property carrying value	5,252.6	5,378.9
Accrued income (non-current)	146.4	134.4
Accrued income (current)	19.6	18.7
Grossing up of headlease liabilities	(66.5)	(59.5)
Revaluation of trading property/other	3.4	2.7
Fair value of property portfolio	**5,355.5**	**5,475.2**

Total property additions during the year were £205.3m of which capital expenditure represented £161.8m. This was about 28% lower than anticipated a year ago, another impact of the lockdowns and other restrictions which have affected construction sites. This may partially reverse with higher capital expenditure in 2021 but we expect overall programme extensions on our major schemes of about one to three months. The principal acquisition was Blue Star House SW9 in Brixton and the main disposal was 40 Chancery Lane WC2, which completed in February 2020, plus 17 residential apartments at Asta House W1. The latter were held as trading properties and the success of the sales campaign is evidenced by the remaining December 2020 balance of only £12.9m against £40.7m a year earlier. As noted earlier, commercial valuations have declined in 2020 with a total revaluation deficit for the year of £195.7m after accounting adjustments, £196.1m relating to the investment property portfolio with a £0.4m surplus at our own offices at Savile Row. The latter figure is shown in the Group Statement of Comprehensive Income.

The balance of unamortised legal and letting fees plus the accrued income from the 'straight-lining' of rental income under IFRS 16 to spread the effect of incentives over the lease terms has increased to £166.0m (2019: £153.1m). This balance rises as income is recognised through incentive periods and falls gradually once the cash flows stabilise. This year, it also reflects £5.7m of impairments booked in 2020 against these balances. We have performed a thorough review of our top 83 tenants as well as analysing them on a sector-by-sector basis. The nature of impairment testing is judgemental and, with respect to long-term receivables under lease commitments, requires us to estimate what may happen over many years. It should be noted that future tenant failure has a potential impact upon the recoverability of these balances. Our approach to impairment testing is considered in more detail below.

The sale of Johnson Building EC1 had exchanged prior to the year end with completion in January 2021 and this property has therefore been reclassified as an 'asset held for sale'.

The Baker Street properties, currently owned with The Portman Estate, are consolidated within our investment property portfolio as we hold 55% and have day-to-day control, but with a non-controlling interest of £51.9m included within balance sheet 'equity'. Later in 2021, we expect to acquire the remaining interest in the development site at 19-35 Baker Street W1 while disposing of a number of the other Baker Street properties.

Rent collection and impairment of receivables

Over the last few years, the Group has typically collected over 99% of its rent and service charge receivables from tenants within two weeks of the due date, with negligible bad debts. This pattern changed dramatically in early 2020 with the pandemic and subsequent lockdown. The table below shows our rent collection statistics quarter by quarter and means that we have now collected 92% of rents demanded for the 2020 rental year, with 5% still to come on agreed deferred payment plans and 3% written off or granted a rent-free period. The office collection rates are higher at 94% collected plus 5% on agreed payment plans. However, the tables illustrate the particular difficulties faced by our retail, restaurant and leisure occupiers where we have provided considerable support through waiving or deferring rents. In addition, we granted a 25% service charge waiver across the entire portfolio for the March to June and June to September quarters in 2020 at a cost of £4.1m.

	Dec 19 quarter		**Mar 20 quarter**		**Jun 20 quarter**		**Sep 20 quarter**	
	Office	**Retail/ Hospitality**	**Office**	**Retail/ Hospitality**	**Office**	**Retail/ Hospitality**	**Office**	**Retail/ Hospitality**
Rent received to date	100%	100%	92%	34%	91%	48%	94%	71%
Payment plans	0%	0%	6%	2%	8%	4%	5%	2%
Outstanding	0%	0%	0%	4%	0%	7%	0%	9%
Rent free	0%	0%	2%	60%	1%	41%	1%	18%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
	£38.0m	**£3.7m**	**£38.8m**	**£3.8m**	**£39.5m**	**£3.7m**	**£41.7m**	**£3.3m**

Because our rents are collected in advance, the impairment review process also includes amounts outstanding relating to the first quarter of 2021 but due on 25 December 2020. Rent collection for the first quarter of 2021 was as follows:

	Dec 20 quarter		
	Office	**Retail/ Hospitality**	**Total**
Rent received to date	93%	54%	**91%**
Due later in the quarter[1]	0%	2%	**0%**
Payment plans	5%	0%	**5%**
Outstanding	1%	17%	**2%**
Rent free	1%	27%	**2%**
Total	**100%**	**100%**	**100%**
	£41.1m	**£3.0m**	**£44.1m**

[1] Principally monthly receipts

Our portfolio in Scotland operates on the Scottish quarter days and the figures are therefore not included in the tables above. The Scottish estate, which consists of mainly retail properties, has now collected 90% of 2020 rental income, with 3% deferred under payment plans, 1% granted rent-free waivers and 6% outstanding.

The higher risks now associated with rent collection have led to substantial impairments being booked against outstanding receivable balances in 2020. Impairment reviews of trade receivables and amounts due under the spreading of lease incentives have been carried out using the expected credit loss model in accordance with IFRS 9 for each of our 83 largest tenants, for others where we believe the risk is greatest (such as retail, hospitality and leisure operators) with the remaining balances considered according to their sector.

The result of this analysis, which has been carefully reviewed by our management team and Audit Committee due to its judgemental nature, was an impairment charge of £8.6m, split £2.9m for trade receivables and £5.7m for IFRS 16 lease incentive receivables. On top of that, receivables written off in 2020 were £1.2m and service charge provisions were £0.3m. The resulting total cost of impairments, write-offs and service charge waivers for 2020 was £14.2m which is taken as a charge against earnings to arrive at net rental income.

Note that, where rent-free periods have been granted under existing leases, the cost of this additional incentive is then required to be spread across the remaining lease term and therefore subject to impairment testing as described above. This reduced gross rental income in 2020 by £0.9m taking the total impact on net rents to £15.1m.

Property income and earnings

Gross property and other income increased to £268.6m from £230.3m in 2019. This reflects a 5.8% increase in gross rental income to £202.9m but has also seen £32.3m of sales of trading properties from the apartments at Asta House included in 2020. Surrender premiums and rights of light receipts added a further £1.8m compared with £1.0m a year earlier. Much of the increase in gross rents came from the completion of 80 Charlotte Street in June 2020, adding £12.2m in 2020. Brunel Building, which completed in mid 2019, also added £8.4m of rental income in 2020. With recent lettings like this being subject to tenant incentives, the income accrued in advance of cash receipts was £24.0m in 2020, compared to £27.3m in 2019. Acquisitions added £0.7m but the increased rental income from lettings was partly offset by £7.7m of rent lost from property disposals in 2019 and 2020, additional void costs of £6.0m and £0.9m recognised in 2020 from additional rent-free periods provided to those tenants who needed support.

However, it is net rental income that illustrates the real impact of Covid-19 on the business much more clearly. After booking £10.1m of impairments or waivers against receivables and deducting the £4.1m of service charge waivers referred to earlier, net rental income fell to £174.3m from £178.0m in 2019, a 2.1% fall. We estimate that, in the absence of Covid-19, net rental income would have grown by approximately 6%.

Administrative expenses increased by 2.2% to £37.8m against a 12% increase in headcount compared with 2019. The business has needed additional resource in such areas as corporate responsibility, sustainability, property management and health and safety and many of our people have worked considerably longer hours in 2020 than we would like. This is partly due to the inefficiencies of remote working for a collaborative business such as ours and partly due to the extra time and support given to occupiers this year. Our wellness programmes and other support for our staff have also had cost implications. As before, we do not capitalise any of our overheads.

The EPRA cost ratio reflects all the irrecoverable property costs, impairment amounts and overheads and has therefore increased substantially. Including direct vacancy costs, it rose to 30.5% from 23.9% in 2019. If the impairments and service charge waivers are excluded, the 2020 cost ratio would have been 23.4%.

See Appendix 5 for cost ratios table

After accounting adjustments for the straight-lining of incentives, deferred legal and letting fees and grossing up of headlease liabilities, the investment portfolio revaluation deficit was £196.1m for the year compared with a surplus of £156.4m in 2019. The profit on disposal of investment properties was £1.7m relating mainly to 40 Chancery Lane WC2 which completed in February 2020.

Due mainly to a £3.1m reduction in capitalised interest, finance costs increased by £3.6m compared to 2019 to £30.3m. However, the prior year included a £7.7m charge for the redemption of convertible bonds so the total finance charges were £4.1m lower at £30.4m compared to £34.5m in 2019. Interest rates fell again in 2020 giving rise to an interest rate swap fair value deficit of £1.9m against £0.1m in 2019.

The resulting IFRS loss before tax for the year was £83.0m compared to a profit before tax of £280.6m in 2019 and the IFRS loss per share was 69.34p against earnings of 253.82p in 2019.

EPRA earnings, which exclude fair value movements and profits on disposals of investment properties, fell by 3.6% to £111.0m from £115.1m. EPRA earnings per share decreased by 3.8% to 99.2p from 103.1p in 2019. A table providing a reconciliation of the IFRS results to EPRA earnings per share is included in note 24 and is summarised below.

See Appendix 5 for charts showing gross rental income and EPRA earnings

EPRA like-for-like rental income

The EPRA like-for-like gross rental income fell by 0.9% mainly because of a slightly higher vacancy rate and our focus on extending income rather than maximising rental levels. The income from new lettings at 80 Charlotte Street is also excluded from these figures. After impairments and other costs, EPRA like-for-like net rental income fell by 9.8%.

See Appendix 5 for the EPRA like-for-like rental income table

Taxation

The corporation tax charge for the year ended 31 December 2020 was £0.2m. Most of our portfolio is within the REIT regime but this charge relates to the Portman joint venture interests held outside the REIT.

The movement in deferred tax for the year was a credit of £0.7m, (2019: £0.6m credit); a £1.0m credit was taken through the income statement mainly due to the release of overage from a property previously disposed of, £0.4m was credited in respect of future defined benefit pension liabilities and £0.6m was credited through the income statement in relation to employee share schemes. In addition, £1.3m was charged through retained earnings in relation to future tax deductions for equity-settled share-based payments, effectively reversing out the 2019 gains.

As well as other taxation paid during the year, in accordance with our status as a REIT, £8.2m of tax was paid to HMRC relating to tax withheld from shareholders on property income distributions (PIDs).

Derwent London's principles of good governance extend to a responsible approach to tax. Our statement of tax principles is available on our website www.derwentlondon.com/investors/governance/tax-principles and is approved by the Board in line with the Group's long-term values, culture and strategy.

Borrowings, net debt and cash flow

Net debt rose 7% over the year to £1.05bn at 31 December 2020 but remains at modest levels with a year end loan-to-value ratio (LTV) of 18.4%. The sale of Johnson Building in early January 2021 reduced this further to a pro forma level of c.15.8% LTV. Group borrowings at the 2020 year end were £1.03bn and, with leverage at this level, our balance sheet remains as strong as ever. As a result, we would be comfortable adding further debt to our capital structure if we can find suitable acquisition opportunities and are in a position to move quickly should we need to. Available cash and undrawn facilities totalled £476m at 31 December 2020 (£511m at 31 December 2019) and, again, increased further in January 2021 on the completion of the £166m Johnson Building sale.

Borrowings have been kept low due mainly due to £157.3m of cash from disposals, with capex spend of £175.2m impacted by lockdowns and acquisitions of only £43.8m in the year.

Operating cash flow and interest cover have both been noticeably affected by the lower rate of rent collections. Net cash from operating activities fell from £97.1m in 2019 to £85.4m, the reduction due to the rents waived or deferred to 2021 though also helped by additional cash rents at Brunel Building and 80 Charlotte Street. Assuming that the £14.5m of deferred rents are collected in 2021, much of this cash flow reduction may reverse over the next year. Interest cover for the year was 446% compared with 462% for 2019, both figures being a long way above our debt covenant of 145%.

See Appendix 5 for table of debt facilities and reconciliation to borrowings and net debt

Debt and financing arrangements

After £875m of refinancing activity in 2019, including the publication of our Green Finance Framework and the £300m 'green' tranche in our £450m revolving credit facility (RCF), the past year was quieter but still significant. The strength of our banking relationships has been evidenced again with a new and enlarged five-year £100m RCF signed with Wells Fargo and the extension of our £450m RCF with HSBC, NatWest and Barclays. These four banks have been supporting us with their balance sheets and transactional advice for many years and we see them as key stakeholders in our business.

The new £100m Wells Fargo RCF was signed in November and replaces their £75m facility which was due to expire in July 2022. The new facility incorporates two possible one-year extensions beyond the current expiry date of November 2025 and includes an accordion option for another £25m. The facility helps extend our debt maturity profile at a margin only slightly higher than previously, increases our available facilities and has similar financial covenants to other unsecured Group borrowings.

In December 2020, we also signed a one-year extension to the £450m Group RCF provided by HSBC, NatWest and Barclays. This facility incorporates our 'green' finance and we provide a further update in this report on the progress made so far. This shows the amounts drawn and the expenditure incurred on green projects, all of which has been independently assured by Deloitte.

Our remaining bank facility is a £28m loan from HSBC secured on the Baker Street properties. This is due to expire in July 2022 but is likely to be repaid before then as the Baker Street arrangements with the Portman Estate are unwound. The £28m interest rate swap associated with this loan fell away in March 2020 and, with very low amounts of bank debt drawn, we currently have no active interest rate swaps in place. The other two swaps totalling £115m have forward start dates and we paid £1.7m in 2020 to defer them beyond the balance sheet date.

The Group's weighted average interest rate fell by 20bp over the year to 3.34% on a cash basis and 3.48% on an IFRS basis. The average interest rate that we pay is dependent on the amount of inexpensive floating rate bank debt that we have drawn. The weighted average maturity of our borrowings was 6.8 years at 31 December 2020 compared to 7.8 years at 31 December 2019.

See Appendix 5 for tables of debt facilities and reconciliation to borrowings and net debt, graphs showing maturity profile of debt facilities and debt: key stats

Qualifying 'green' expenditure

The qualifying 'green' expenditure as at 31 December 2020 for each project is set out in the table below. This includes an element of 'look back' capital expenditure on live projects which had already been incurred as at the refinancing date (October 2019), including the 80 Charlotte Street scheme which commenced in 2015. Soho Place and The Featherstone Building both commenced on site in 2019. There have been no new Eligible Green Projects (EGPs) elected in 2020.

Cumulative spend on each EGPs to 31 December 2020

Project	**Look back spend £m**	**Subsequent spend**		**Cumulative spend £m**
		Q4 2019 spend £m	**2020 spend £m**	
80 Charlotte Street W1	185.6	16.9	16.9	219.4
Soho Place W1	66.3	13.4	61.5	141.2
The Featherstone Building EC1	29.1	5.2	24.8	59.1
	281.0	**35.5**	**103.2**	**419.7**

The cumulative qualifying expenditure on EGPs was £419.7m, with £103.2m of this being incurred in 2020.

The drawn borrowings from Green Financing Transactions (GFTs) as at 31 December 2020 were £80m; therefore, there was £220m of available unallocated headroom within the £300m green tranche of the Group's £450m revolving credit facility as at 31 December 2020.

A requirement under the Framework and the facility agreement is for there to be an excess of qualifying spend on EGPs over the amount of drawn borrowings from GFTs which, as shown above, has been met.

Dividend

We recognise the importance to our shareholders of a consistent and sustainable dividend policy. Dividends declared in relation to 2019 earnings were 1.4 times covered by EPRA earnings and therefore, though EPRA earnings have dropped by 3.6% this year, we have been able to recommend a 1p per share increase in the final dividend for 2020 to 52.45p. This will be paid in June 2021 with 35.00p as a PID and the balance of 17.45p as a conventional dividend. We will not be offering a scrip dividend alternative.

On top of the 1p per share increase in the 2020 interim dividend, this brings the total dividend for 2020 to 74.45p which is 1.33 times covered by EPRA earnings. Note that EPRA earnings in 2020 also exclude profits on the sale of investment and trading properties totalling £6.9m; if these are added back, the dividend cover was 1.4 times.

In arriving at our recommendation, we have also considered our pension fund obligations, which are not material, the enhanced amounts paid to charitable institutions and the fact that none of our employees were furloughed in 2020.

PRINCIPAL RISKS AND UNCERTAINTIES

We have identified certain principal risks and uncertainties that could prevent the Group from achieving its strategic objectives and have assessed how these risks could best be mitigated through a combination of internal controls, risk management and the purchase of insurance cover. These risks are reviewed and updated on a regular basis and were last formally assessed by the Board in March 2021.

Covid-19 and the resulting economic and social disruption have brought unforeseen challenges to London and the wider global economy. These are extraordinary times with exceptional risks and heightened uncertainty.

During the year under review, Derwent London responded to the Covid-19 pandemic through proactive risk identification and mitigation, and early and continual engagement with our stakeholders. Our strong financial position and stakeholder-focused approach has helped us to weather the uncertainty.

The future outlook for London is looking more promising: the Prime Minister has announced a roadmap to cautiously ease lockdown restrictions and, as at the date of signing this report, more than 22 million people in the UK have received at least one dose of a coronavirus vaccine.

The principal risks and uncertainties facing the Group in 2021 are set out on the following pages with the potential impact and the mitigating actions and controls in place. The Group's approach to the management and mitigation of risk is included in the 2020 Report and Accounts.

The Board, Risk Committee and Executive Committee have been actively monitoring the impact of Covid-19 on our business and have subsequently reassessed its impact on our principal risks and uncertainties. An overview of the Board's assessment of this on each principal risk is contained in the tables below. In summary, Covid-19 has had a considerable impact on the materiality of these risks and has resulted in the classification as new principal risks of tenant failure, income decline and the potential impact on our business from the introduction of a new tax to replace or complement business rates.

Strategic risks
That the Group’s business model and/or strategy does not create the anticipated shareholder value or fails to meet investors’ and other stakeholders’ expectations.

Risk, effect and progression	Controls and mitigation
1. Failure to implement the Group’s strategy	
The Group’s strategy is not met due to poor strategy implementation or a failure to respond appropriately to internal or external factors such as: • an economic downturn; • the Group’s development programme being inconsistent with the current economic cycle; and/or • London losing its global appeal with a consequential impact on the property investment or occupational markets. Although the Covid-19 pandemic did not stop the Group implementing its strategy in 2020, the lockdown restrictions have marginally extended the project length for Soho Place and The Featherstone Building, and has caused significant economic disruption. Our strategy currently includes incorporating a retail element into our buildings to provide amenity to our tenants and the local community. As Covid-19 has only amplified the weaknesses within the retail market, this aspect of our strategy is being reviewed. The impact of a potential recession on our strategy, and other longer-term	• The Group’s development pipeline has a degree of flexibility that enables plans for individual properties to be changed to reflect prevailing economic circumstances. • The Group seeks to maintain income from properties until development commences and has an ongoing strategy to extend income through lease renewals and regears. • The Group aims to de-risk the development programme through pre-lets, typically during the construction period. • The Group conducts an annual strategic review, prepares a budget and provides three two-year rolling forecasts. • The Board considers the sensitivity of the Group KPIs to changes in the assumptions underlying our forecasts in light of anticipated economic conditions. If considered necessary, modifications are made. • The Group maintains sufficient headroom in all the Group’s key ratios and financial covenants with a particular focus on interest cover.

consequences of the Covid-19 pandemic, is being monitored by the Executive Committee and the Board.

2. Implications of Brexit

International trade negotiations following Brexit result in arrangements which are damaging to the London economy. As a London-based Group, we are particularly impacted by factors which affect London's growth and demand for office space.

Trade negotiations with the European Union continued during 2020 despite the Covid-19 pandemic, and resulted in the UK-EU Trade and Cooperation Agreement (TCA) being finalised on 24 December 2020. For London, further uncertainty remains until terms are agreed in respect of financial services. The financial services sector contributes approximately £130 billion to the UK economy, 1.1 million jobs and 40% of the sector's exports are to the EU. London's economy, and its place as one of the world's leading financial centres, could be damaged if an adverse agreement is reached in respect of financial services. The Group will continue to monitor international trade negotiations, including the UK application to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).

- Trade negotiations are being monitored and potential outcomes discussed with external advisers.
- The Group's strong financing and covenant headroom enables it to weather a downturn. In addition, the Group's diverse and high-quality tenant base provides resilience against tenant default.
- Construction cost risk, with the exception of Government tariffs, sits with our main contractors. Early ordering and off-site holding facilities are in place for our development projects.
- The Group focuses on good value properties that are less susceptible to reductions in tenant demand. The Group's average 'topped-up' office rent is only £57.71 per sq ft.
- Income is maintained at future development sites for as long as possible. The Group develops properties in locations where there is good potential for future demand, such as near Crossrail stations.

Financial risks

Significant steps have been taken in recent years to reduce or mitigate the Group's financial risks. The main financial risk is that the Group becomes unable to meet its financial obligations, which is not currently a principal risk. Financial risks can arise from movements in the financial markets in which we operate and inefficient management of capital resources.

Risk, effect and progression	Controls and mitigation

3. Risk of tenants defaulting or tenant failure

The risk that tenants become unable to pay their rents and/or their businesses fail. In the current environment, this risk has increased to be classified as a principal risk for the Group.

Due to the economic impact of Covid-19, and its potential long-term implications, occupiers could be facing increased financial difficulty. Restaurants and hospitality occupiers (who account for approximately 9% of our portfolio income) are of particular concern. Covid-19 has only amplified the weaknesses within the retail market and there is a strong likelihood that retail rents and values could fall even further. Our occupiers perceive the restaurant, retail and leisure aspects within our portfolio as amenities; hence we feel it is important that they are retained within our building offerings.

- The Credit Committee perform detailed reviews of all prospective tenants.
- A "tenants at risk" register is maintained and regularly reviewed by the Executive Committee and the Board.
- Rent deposits are held where considered appropriate; the balance at 31 December 2020 was £18.8m.
- Active rent collection with regular reports to the Executive Committee.
- We maintain close and frequent contact with our tenants.
- Insurance for loss of rent is regularly considered.

4. Risks arising from changing macroeconomic factors

A. Income decline (previously, 'Fall in property values')

Due to the various risk factors, including:

- Future demand for office space;
- Rising 'grey' market vacancy in office space (i.e. space sublet by tenants);
- Weaknesses in retail and hospitality businesses;
- Depth of recession;
- Brexit uncertainty; and
- Rising unemployment.

There is a risk that our income could decline which could lead to lower interest cover under our debt facility financial covenants. This could also have an adverse impact upon the property valuation and future dividend payments. In addition, depending on how prolonged the adverse impacts of Covid-19 are on businesses, and how our occupiers fare during this period, we could face additional risk of income impairment.

In light of Covid-19, we have been monitoring the economic outlook, vacancy rates, financial health of our tenants and the condition of the wider property market. Given the ongoing uncertainty, it is difficult to forecast the impact on 2021 EPRA earnings or cash receipts. Future dividends will remain under review.

- The Credit Committee perform detailed reviews of all prospective tenants.
- A "tenants at risk" register is maintained and regularly reviewed by the Executive Committee and the Board.
- Ongoing dialogue is held with tenants to understand their concerns and requirements.
- The Group's low loan-to-value ratio reduces the likelihood that falls in property values have a significant impact on our business continuity.

B. The potential impact on our business from the introduction of a new tax to replace or complement business rates

Due to the ongoing weakness of physical retail trading, the cost of supporting the economy during Covid-19 and the loss of tax revenues, the government has been reported as considering measures to increase tax revenues. One area that has dominated the headlines is the reform of business rates. The government has been seeking views on how the business rates system currently works, issues to be addressed, ideas for change and a number of alternative means of taxing non-residential property to either replace or complement the business rates system. Derwent London is particularly mindful of alternatives being discussed which could impose a tax on the landowner rather than the tenant. In this respect, Derwent London will keep abreast of any new developments in this area and consider the impact of the various proposals once more detail is published.

- The Executive Committee and Board monitor macroeconomic factors, including interest rates and tax policy.
- The Group has an experienced Head of Tax who advises the Board on the implications of tax policy.

Operational risks

The Group suffers either a financial loss or adverse consequences due to processes being inadequate or not operating correctly, human factors or other external events.

Risk, effect and progression	Controls and mitigation
5. Risks arising from our development activities	
A. Reduced development returns	
The Group's development projects do not produce the targeted financial returns due to one or more of the following factors: • delay on site • increased construction costs • adverse letting conditions Due to restrictions introduced to prevent the spread of Covid-19, our on-site developments have been subject to delays of between one to three months. During 2020, our development team liaised and agreed with our principal contractors in respect to Covid-19-related liabilities and cost sharing.	• Development appraisals, which include contingencies and inflationary cost increases, are prepared and sensitivity analysis is undertaken to judge whether an adequate return is made in all likely circumstances. • The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs. • Development costs are benchmarked to ensure that the Group obtains competitive pricing and, where appropriate, fixed price contracts are negotiated. • Procedures carried out before starting work on site, such as site investigations, historical research of the property and surveys conducted as part of the planning application, reduce the risk of unidentified issues causing delays once on site. • The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible. • Detailed reviews are performed on construction projects to ensure that programme forecasts predicted by our contractors are aligned with our views. • Post-completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures are identified, implemented and lessons learned.

B. 'On-site' risk

Risk of project delays and/or cost overruns caused by unidentified issues e.g. asbestos in refurbishments or ground conditions in developments. For example, our successful pre-letting programme means we could face a loss of rental income and penalties if projects are delayed.

Due to restrictions introduced to prevent the spread of Covid-19, our on-site developments have been subject to minor delays. 80 Charlotte Street achieved practical completion in June 2020, and The Featherstone Building and Soho Place are still expected to be completed within their original budgets under the revised programme.

Sites are now operational but are not at full capacity due to social distancing measures. Despite strict Covid-19 protocols on-site, there is a risk of labour and resource shortages as UK cases rise, which could lead to productivity disruption and project delay.

- Strict Covid-19 protocols have been introduced at all of our on-site developments, in accordance with Site Operating Procedures (published by the Construction Leadership Council).
- Productivity is monitored on a monthly basis and our contractors have been incentivised to achieve the reset programmes post the Covid-19 site closures.
- Prior to construction beginning on site, we conduct site investigations including the building's history and various surveys to identify any potential issues.
- Regular monitoring of our contractors' cash flows.
- Off-site inspection of key components to ensure they have been completed to the requisite quality.
- Frequent meetings with key contractors and subcontractors to review their work programme.
- Monthly reviews of Brexit related supply chain issues.

C. Contractor/subcontractor default

Returns from the Group's developments are reduced due to delays and cost increases caused by either a main contractor or major subcontractor defaulting during the project. There have been ongoing issues within the construction industry in respect of the level of risk and narrow profit margins being accepted by contractors. We regularly monitor our contractors for any trading concerns.

There is an increased risk of insolvencies in the construction industry when the government's Covid-19 furlough scheme ceases. Due to this risk, we have been actively monitoring the financial health of our main contractors and subcontractors.

- The financial standing of our main contractors is reviewed prior to awarding the project contract.
- Regular monitoring of our contractors, including their project cash flows, is carried out.
- Key construction packages are acquired early in the project's life to reduce the risks associated with later default.
- Regular on-site supervision is undertaken by a dedicated Project Manager who monitors contractor performance and identifies problems at an early stage, thereby enabling remedial action to be taken.
- Payments to contractors to incentivise them to achieve agreed project timescale and damages agreed in the event of delays/cost overruns.
- Our main contractors are responsible for, and assume the immediate risk of, subcontractor default.
- We use known contractors with whom we have established long-term working relationships.
- Contractors are paid promptly and are encouraged to pay subcontractors promptly.

6. Risk of business interruption

A. Cyber-attack on our IT systems

The Group is subject to a cyber-attack that results in it being unable to use its IT systems and/or losing data. This could lead to an increase in costs whilst a significant diversion of management time would have a wider impact. Considerable time has been spent assessing cyber risk and strengthening our controls and procedures.

During 2020, there has been an increase in cyber attacks being perpetrated as cyber criminals seek to exploit Covid-19. In response, we identified the key IT risks arising from home working and implemented additional controls.

- The Group's Business Continuity Plan is regularly reviewed and tested.
- Independent internal and external 'penetration' tests are regularly conducted to assess the effectiveness of the Group's security.
- Multi-Factor Authentication exists for remote access to our systems.
- Incident response and remediation processes are in place, which are regularly reviewed and tested.
- The Group's data is regularly backed up and replicated off-site.
- Our IT systems are protected by anti-virus software, security anomaly detection and firewalls that are frequently updated.
- Frequent staff awareness and training programmes.
- Security measures are regularly reviewed by the IT department.
- The Group has been awarded the 'Cyber Essentials' badge to demonstrate our commitment to cyber security.

B. Cyber-attack on our buildings

The Group is subject to a cyber-attack that results in data breaches or significant disruption to IT-enabled tenant services. Buildings are becoming 'intelligent', with an increase in internet enabled devices broadening the cyber security threat landscape.

The potential impact of a cyber-attack on our buildings has reduced due to the winding down of services and overall low occupancy caused by Covid-19. Conversely, the potential risk of this occurring has increased due to low occupancy levels which could provide an opportunity for attack. During the lockdown, 24/7 security was provided by outsourced providers.

- Each building has incident management procedures which are regularly reviewed and tested.
- Physical segregation between the building's core IT infrastructure and tenants' corporate IT networks.
- Physical segregation of IT infrastructure between buildings across the portfolio.
- Inclusion of Building Managers in any cyber security awareness training and phishing simulations.

C. Significant business interruption (for example, pandemic, terrorism-related event or other business interruption) (previously, 'Terrorism-related or other business interruption')

The risk that a pandemic, terrorism-related event or other business interruption causes significant business interruption to the Group and/or its occupiers or supply chain. This could result in issues such as inability to access or operate our properties, tenant failures or reduced rental income, share price volatility, loss of key suppliers, etc.

Covid-19 has caused significant business interruption for some of our occupiers, particularly retail, travel, restaurants or other leisure services. During 2020, there has been limited business interruption for Derwent London; however, the lockdown has caused a delay to our development activities and reduction in cash flow due to deferment, concessions or non-payment of rent.

- The Group has comprehensive business continuity and incident management procedures both at Group level and for each of our managed buildings which are regularly reviewed and tested.
- Government health guidelines are maintained at all of our construction sites.
- Most of our employees are capable of working remotely and have the necessary IT resources.
- Fire protection and access/security procedures are in place at all of our managed properties.
- Comprehensive property damage and business interruption insurance which includes terrorism.
- At least annually, a fire risk assessment and health and safety inspection are performed for each property in our managed portfolio.
- Robust security at our buildings, including CCTV and access controls.

7. Reputational damage

The Group's reputation is damaged, for example through unauthorised and/or inaccurate media coverage or failure to comply with relevant legislation. We have invested significantly in developing a well-regarded and respected brand. Our strong culture, low overall risk tolerance and established procedures and policies mitigate against the risk of internal wrongdoing.

How the Group responds to, and manages, the Covid-19 pandemic could either enhance or damage our reputation. Feedback on how we have responded, particularly in respect to our occupiers, suppliers, employees and Community Fund, has generally been positive.

- Close involvement of senior management in day-to-day operations and established procedures for approving all external announcements.
- All new members of staff benefit from an induction programme and are issued with our Group staff handbook.
- The Group employs a Head of Investor and Corporate Communications and retains services of an external PR agency, both of whom maintain regular contact with external media sources.
- A Group whistleblowing system for staff is maintained to report wrongdoing anonymously.
- Social media channels are monitored.
- Ongoing engagement with local communities in areas where the Group operates.
- Staff training and awareness programmes.

8. Our resilience to climate change

The Group fails to respond appropriately, and sufficiently, to climate change risks or fails to benefit from the potential opportunities. This could lead to damage to our reputation, loss of income and/or property values and loss of our licence to operate.

In July we published our Net Zero Carbon Pathway, which sets out in more detail how we will become a net zero carbon business by 2030.

- The Board and Executive Committee receive regular updates and presentations on environmental and sustainability performance and management matters as well as progress against our pathway to becoming net zero carbon by 2030.
- The Sustainability Committee monitors our performance and management controls.
- Strong team led by an experienced Head of Sustainability.
- The Group monitors its ESG (environmental, social and governance) reporting against various industry benchmarks.
- Production of an annual Responsibility Report with key data and performance points which are externally assured.
- In 2017 we adopted independently verified science-based carbon targets which have been approved by the Science-Based Targets Initiative (SBTi).

9. Non-compliance with regulation

A. Non-compliance with health and safety legislation

The Group's cost base is increased and management time is diverted through an incident or breach of health and safety legislation leading to reputational damage and/or loss of our licence to operate.

During 2020, the health and wellbeing of our employees, occupiers and other stakeholders has been a top priority. We have invested additional resources into health and safety.

- All our properties have the relevant health, safety and fire management procedures in place which are reviewed annually.
- The Group has a qualified health and safety team whose performance is monitored and managed by the Health and Safety Committee.
- Health and safety statutory compliance within our managed portfolio is managed and monitored using QUOODA, a software compliance platform. This is supported by annual property health checks.
- The Construction Health and Safety Manager, with the support of external advisers, reviews health, safety and welfare on each construction site on a monthly basis.
- The Board and Executive Committee receive frequent updates and presentations on key health and safety matters.

B. Other regulatory non-compliance

The Group's cost base is increased and management time is diverted through a breach of any of the legislation that forms the regulatory framework within which the Group operates. This could lead to damage to our reputation and/or loss of our licence to operate.

During 2020, we followed the UK government's regulations in respect of social distancing and safe working practices. In accordance with disclosure requirements, we ensured our stakeholders and the wider investment market were kept appraised of Derwent London's response to Covid-19 and its impact on our business.

- The Board and Risk Committee receive regular reports prepared by the Group's legal advisers identifying upcoming legislative/regulatory changes. External advice is taken on any new legislation.
- Staff training and awareness programmes.
- Group policies and procedures dealing with all key legislation are available on the Group's intranet.
- A Group whistleblowing system for staff is maintained to report wrongdoing anonymously.
- Managing our properties to ensure they are compliant with the Minimum Energy Efficiency Standards (MEES) for Energy Performance Certificates (EPCs).

Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

- credit risk;
- market risk; and
- liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years.

Principal financial instruments
The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, accrued income arising from the spreading of lease incentives, cash at bank, trade and other payables, floating rate bank loans, fixed rate loans and private placement notes, secured and unsecured bonds and interest rate swaps.

General objectives, policies and processes
The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority to executive management for designing and operating processes that ensure the effective implementation of the objectives and policies.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's flexibility and its ability to maximise returns. Further details regarding these policies are set out below:

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from lease contracts in relation to its property portfolio. It is Group policy to assess the credit risk of new tenants before entering into such contracts. The Board has a Credit Committee which assesses each new tenant before a new lease is signed. The review includes the latest sets of financial statements, external ratings when available and, in some cases, forecast information and bank or trade references. The covenant strength of each tenant is determined based on this review and, if appropriate, a deposit or a guarantee is obtained. The Committee also reviews existing tenant covenants from time to time.

The impact of Covid-19 has given rise to higher estimated probabilities of default for some of the Group's occupiers. As a result, impairment calculations have been carried out on trade receivables and accrued income arising as a result of the spreading of lease incentives using the forward-looking, simplified approach to the expected credit loss model within IFRS 9. In addition, the Credit Committee has reviewed its register of tenants at higher risk, particularly in the retail or hospitality sectors, those in administration or CVA and the top 83 tenants by size with the remaining occupiers considered on a sector by sector basis.

As the Group operates predominantly in central London, it is subject to some geographical risk. However, this is mitigated by the wide range of tenants from a broad spectrum of business sectors.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of investment grade are accepted. This risk is also reduced by the short periods that money is on deposit at any one time.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk arises for the Group from its use of variable interest bearing instruments (interest rate risk).

The Group monitors its interest rate exposure on at least a quarterly basis. Sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates would result in an increase of £0.8m (2019: £0.3m) or a decrease of £0.7m (2019: £0.3m).

It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2020, the proportion of fixed debt held by the Group was within this range at 85% (2019: 93%). During both 2020 and 2019, the Group's borrowings at variable rate were denominated in sterling.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. When the Group raises long-term borrowings, it is generally at fixed rates.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient headroom in its loan facilities to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain committed facilities to meet the expected requirements. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings. This is further explained in the 'market risk' section above.

Executive management receives rolling three-year projections of cash flow and loan balances on a regular basis as part of the Group's forecasting processes. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The Group's loan facilities and other borrowings are spread across a range of banks and financial institutions so as to minimise any potential concentration of risk. The liquidity risk of the Group is managed centrally by the finance department.

Capital disclosures

The Group's capital comprises all components of equity (share capital, share premium, other reserves, retained earnings and non-controlling interest).

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern so that it can continue to provide above average long-term returns for shareholders; and
- to provide an above average annualised total return to shareholders.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders subject to the rules imposed by its REIT status. It may also seek to redeem bonds, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and loan-to-value ratio. During 2020, the Group's strategy, which was unchanged from 2019, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the net interest cover ratio, are defined in the list of definitions at the end of this announcement and are derived in note 25.

The Group is also required to ensure that it has sufficient property assets which are not subject to fixed or floating charges or other encumbrances. Most of the Group's debt is unsecured and, accordingly, there was £4.3bn (2019: £4.4bn) of uncharged property as at 31 December 2020.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether, for the Group and Company, international accounting standards in conformity with the requirements of the Companies Act 2006 and, for the group, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Paul M. Williams
Chief Executive

Damian M.A. Wisniewski
Chief Financial Officer

11 March 2021

GROUP INCOME STATEMENT

	Note	**2020 £m**	2019 £m
Gross property and other income	5	**268.6**	230.3
Net property and other income[1]	5	**183.0**	182.6
Administrative expenses		**(37.8)**	(37.0)
Revaluation (deficit)/surplus	11	**(196.1)**	156.4
Profit on disposal	6	**1.7**	13.8
(Loss)/profit from operations		**(49.2)**	315.8
Finance income	7	**0.2**	0.2
Finance costs	7	**(30.3)**	(26.7)
Bond redemption premium	7	**-**	(7.7)
Loan arrangement costs written off	7	**(0.1)**	(0.1)
Movement in fair value of derivative financial instruments		**(1.9)**	(0.1)
Financial derivative termination costs	8	**(1.7)**	(2.7)
Share of results of joint ventures	9	**-**	1.9
(Loss)/profit before tax		**(83.0)**	280.6
Tax credit/(charge)	10	**1.6**	(2.5)
(Loss)/profit for the year		**(81.4)**	278.1
Attributable to:			
- Equity shareholders		**(77.6)**	283.4
- Non-controlling interest		**(3.8)**	(5.3)
		(81.4)	278.1
Basic (loss)/earnings per share	24	**(69.34p)**	253.82p
Diluted (loss)/earnings per share	24	**(69.34p)**	253.11p

[1] Net property and other income in 2020 includes write-off/impairment of receivables of £10.1m and service charge waiver of £4.1m. See note 3 for additional information.

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Note	2020 £m	2019 £m
(Loss)/profit for the year		**(81.4)**	278.1
Actuarial losses on defined benefit pension scheme		**(4.1)**	(0.6)
Deferred tax credit on pension	19	**0.4**	-
Revaluation surplus/(deficit) of owner-occupied property	11	**0.4**	(1.8)
Deferred tax (charge)/credit on revaluation	19	**(0.2)**	0.1
Other comprehensive expense that will not be reclassified to profit or loss		**(3.5)**	(2.3)
Total comprehensive (expense)/income relating to the year		**(84.9)**	275.8
Attributable to:			
- Equity shareholders		**(81.1)**	281.1
- Non-controlling interest		**(3.8)**	(5.3)
		(84.9)	275.8

GROUP BALANCE SHEET

	Note	**2020** **£m**	2019 £m
Non-current assets			
Investment property	11	**5,029.1**	5,174.3
Property, plant and equipment	12	**50.2**	50.2
Investments	13	**0.9**	1.3
Pension scheme surplus		**-**	0.5
Other receivables	14	**146.4**	134.4
		5,226.6	5,360.7
Current assets			
Trading property	11	**12.9**	40.7
Trade and other receivables	15	**76.2**	58.6
Cash and cash equivalents	21	**50.7**	54.5
		139.8	153.8
Non-current assets held for sale	16	**165.0**	118.6
Total assets		**5,531.4**	5,633.1
Current liabilities			
Trade and other payables	17	**106.7**	112.5
Corporation tax liability		**0.5**	0.3
Provisions		**0.6**	0.9
		107.8	113.7
Non-current liabilities			
Borrowings	18	**1,033.2**	976.6
Derivative financial instruments	18	**5.6**	3.7
Leasehold liabilities	18	**66.6**	59.5
Provisions		**0.4**	1.5
Pension scheme deficit		**2.2**	-
Deferred tax	19	**0.5**	1.2
		1,108.5	1,042.5
Total liabilities		**1,216.3**	1,156.2
Total net assets		**4,315.1**	4,476.9
Equity			
Share capital		**5.6**	5.6
Share premium		**193.7**	193.0
Other reserves		**939.4**	936.2
Retained earnings		**3,124.5**	3,286.4
Equity shareholders' funds		**4,263.2**	4,421.2
Non-controlling interest		**51.9**	55.7
Total equity		**4,315.1**	4,476.9

GROUP STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
At 1 January 2020	5.6	193.0	936.2	3,286.4	4,421.2	55.7	4,476.9
Loss for the year	-	-	-	(77.6)	(77.6)	(3.8)	(81.4)
Other comprehensive income/(expense)	-	-	0.2	(3.7)	(3.5)	-	(3.5)
Share-based payments	-	0.7	3.0	1.6	5.3	-	5.3
Dividends paid	-	-	-	(82.2)	(82.2)	-	(82.2)
At 31 December 2020	**5.6**	**193.7**	**939.4**	**3,124.5**	**4,263.2**	**51.9**	**4,315.1**

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
At 1 January 2019	5.6	189.6	943.5	3,063.2	4,201.9	61.5	4,263.4
Profit/(loss) for the year	-	-	-	283.4	283.4	(5.3)	278.1
Other comprehensive expense	-	-	(1.7)	(0.6)	(2.3)	-	(2.3)
Share-based payments	-	3.4	(0.8)	4.6	7.2	-	7.2
Bond redemption	-	-	(12.3)	11.4	(0.9)	-	(0.9)
Bond issue	-	-	7.5	-	7.5	-	7.5
Dividends paid	-	-	-	(75.6)	(75.6)	(0.5)	(76.1)
At 31 December 2019	5.6	193.0	936.2	3,286.4	4,421.2	55.7	4,476.9

GROUP CASH FLOW STATEMENT

	Note	**2020 £m**	2019 £m
Operating activities			
Rents received		**161.9**	171.0
Surrender premiums and other property income		**2.7**	0.5
Property expenses		**(19.1)**	(18.6)
Cash paid to and on behalf of employees		**(27.5)**	(24.4)
Other administrative expenses		**(8.0)**	(9.9)
Interest received		**0.2**	0.2
Interest paid	7	**(25.4)**	(18.8)
Other finance costs	7	**(2.9)**	(3.0)
Other income		**3.5**	3.6
Tax paid in respect of operating activities		**-**	(3.5)
Net cash from operating activities		**85.4**	97.1
Investing activities			
Acquisition of properties		**(43.8)**	(31.6)
Capital expenditure on the property portfolio	7	**(175.2)**	(204.0)
Reimbursement of capital expenditure		**0.6**	3.5
Disposal of investment properties		**125.6**	159.3
Disposal of trading properties		**31.7**	-
Investment in joint ventures		**-**	(0.6)
Receipts from joint ventures		**0.4**	30.3
Purchase of property, plant and equipment		**(0.4)**	(0.3)
Disposal of property, plant and equipment		**-**	1.3
VAT paid		**(0.9)**	(2.2)
Net cash used in investing activities		**(62.0)**	(44.3)
Financing activities			
Net proceeds of bond issue		**-**	171.0
Repayment of revolving bank loan		**(6.5)**	-
Drawdown of new revolving bank loan		**24.2**	-
Net movement in revolving bank loans		**38.0**	(203.1)
Bond redemption		**-**	(150.0)
Bond redemption premium		**-**	(8.5)
Drawdown of private placement notes		**-**	248.8
Financial derivative termination costs	8	**(1.7)**	(2.7)
Net proceeds of share issues		**0.6**	3.5
Dividends paid to non-controlling interest holder		**-**	(0.5)
Dividends paid	20	**(81.8)**	(75.1)
Net cash used in financing activities		**(27.2)**	(16.6)
(Decrease)/increase in cash and cash equivalents in the year		**(3.8)**	36.2
Cash and cash equivalents at the beginning of the year		**54.5**	18.3
Cash and cash equivalents at the end of the year	21	**50.7**	54.5

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The financial information does not constitute the Group's statutory accounts for either the year ended 31 December 2020 or the year ended 31 December 2019, but is derived from those accounts. The Group's statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Company's Annual General Meeting. The Auditor's reports on both the 2019 and 2020 accounts were unmodified, did not draw attention to any matters by way of an emphasis of matter and did not contain any statement under Section 498 of the Companies Act 2006.

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, property, plant and equipment, and financial assets and liabilities held at fair value or amortised cost.

Going concern

The Board continues to adopt the going concern basis in preparing these consolidated financial statements. In considering this requirement, the Directors have taken into account the following:

- The Group's latest rolling forecast for the next two years, in particular the cash flows, borrowings and undrawn facilities.
- The headroom under the Group's financial covenants.
- The risks included on the Group's risk register that could impact on the Group's liquidity and solvency over the next 12 months.
- The risks on the Group's risk register that could be a threat to the Group's business model and capital adequacy.

The Directors have considered the relatively long-term and predictable nature of the income receivable under the tenant leases, the Group's loan-to-value ratio of 18.4%, the interest cover ratio of 446%, the £476m total of undrawn facilities and cash and the fact that the average maturity of borrowings was 6.8 years at 31 December 2020. They have also considered the impact of the Covid-19 pandemic and lockdown on the Group's business and occupiers. There is a risk that income could decline further with an increased risk of tenant defaults and drop in demand for office and retail space due to the economic outlook. Based on our forecasts, rental income would need to decline by 68% and property values would need to fall by 67% before breaching our financial covenants. In the scenarios tested, our net interest cover remained above 385% and our loan-to-value ratio below 40%, both of which are comfortably within our financial covenants.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review. In addition, the Group's risks and risk management processes can be found within the risk management and internal controls.

Having due regard to these matters and after making appropriate enquiries, the Directors have reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of signing of these consolidated financial statements and, therefore, the Board continues to adopt the going concern basis in their preparation.

2. Changes in accounting policies

The accounting policies used by the Group in these condensed financial statements are consistent with those applied in the Group's financial statements for the year to 31 December 2019, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

New standards adopted during the year

The following standards, amendments and interpretations endorsed by the EU were effective for the first time for the Group's current accounting period and had no material impact on the financial statements.

References to Conceptual Framework in IFRSs (amended);
IAS 1 and IAS 8 (amended) – Definition of Material;
IFRS 3 (amended) – Definition of a Business;
IFRS 16 (amended) – Covid-19-Related Rent Concessions.

Standards in issue but not yet effective
The following standards, amendments and interpretations were in issue at the date of approval of these financial statements but were not yet effective for the current accounting period and have not been adopted early. Based on the Group's current circumstances, the Directors do not anticipate that their adoption in future periods will have a material impact on the financial statements of the Group.

IFRS 17 – Insurance Contracts;
IAS 1 (amended) – Classification of liabilities as current or non-current;
IFRS 10 and IAS 28 (amended) – Sale or Contribution of Assets between an investor and its Associate or Joint Venture;
IFRS 3 (amended) – Reference to the Conceptual Framework;
IAS 16 (amended) – Property, Plant and Equipment: Proceeds before Intended Use.

3. Significant judgments, key assumptions and estimates

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgements. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on these condensed financial statements.

Key sources of estimation uncertainty

Property portfolio valuation
The Group uses the valuation carried out by external valuers as the fair value of its property portfolio. The valuation considers a range of assumptions including future rental income, investment yields, anticipated outgoings and maintenance costs, future development expenditure and appropriate discount rates. The external valuers also make reference to market evidence of transaction prices for similar properties. Against the backdrop of the Covid-19 pandemic, the valuers have also considered the impact of additional rent free periods granted on the valuation, as well as the impact of occupiers from sectors deemed highest risk. For example, deductions equal to the rent free granted have been made to the valuations, being predominantly for retail units, restaurants and fitness clubs. More information is provided in note 11.

Impairment testing of trade receivables and other financial assets
Trade receivables and accrued rental income recognised in advance of receipt are subject to impairment testing. This accrued rental income arises due to the spreading of rent free and reduced rent periods, capital contributions and contracted rent uplifts in accordance with IFRS 16 Leases.

Impairment calculations have been carried out using the forward-looking, simplified approach to the expected credit loss model within IFRS 9. Covid-19 and the resulting economic and social disruption have brought unforeseen challenges to London, the UK and the wider global economy; it has impacted on our business and in general our overall risk profile is elevated. Due to the restrictions arising from the Covid-19 pandemic there is an increased risk of certain tenants defaulting or failing, particularly in respect to the leisure/retail/hospitality sectors. The impact of Covid-19 has given rise to higher estimated probabilities of default for some of our occupiers, so the impairment provisions calculated as at 31 December 2020 are higher than in previous periods (see note 15). In arriving at our estimates, we have considered the tenants at higher risk, particularly in the retail or hospitality sectors, those in administration or CVA, the top 83 tenants by size and have also considered the remaining balances classified by sector.

The impairment provisions are included within 'Other receivables (non-current)' (see note 14) and 'Trade and other receivables' (see note 15) as shown below:

	Other receivables (non-current) £m	Trade and other receivables £m	**Total £m**
Lease incentive receivables before impairment	137.3	18.9	**156.2**
Impairment of lease incentive receivables	(4.6)	(1.1)	**(5.7)**
Write-off	(0.4)	(0.4)	**(0.8)**
Net lease incentive included within accrued income	132.3	17.4	**149.7**
Trade receivables before impairment	-	31.1	**31.1**
Impairment of trade receivables	-	(3.2)	**(3.2)**
Service charge provision	-	(0.3)	**(0.3)**
Bad debt provision released	-	0.3	**0.3**
Write-off	-	(0.4)	**(0.4)**
Net trade receivables	-	27.5	**27.5**
Impairment	(4.6)	(4.3)	**(8.9)**
Write-off	(0.4)	(0.8)	**(1.2)**
Write-off/impairment of receivables	(5.0)	(5.1)	**(10.1)**

The assessment considered the risk of tenant failures or defaults using information on tenants' payment history, deposits held, the latest known financial position together with forecast information where available, ongoing dialogue with tenants as well as other information such as the sector in which they operate. Following this, tenants were classified as either low, medium or high risk and the table below provides further information. The impairment against the lease incentive receivable balance was £5.7m and £3.7m against the trade receivables balance.

	Lease incentive receivables (non-current) £m	Lease incentive receivables (current) £m	**Total £m**
Balance before impairment			
Low risk	101.8	10.4	**112.2**
Medium risk	27.5	6.0	**33.5**
High risk	7.6	2.1	**9.7**
	136.9	18.5	**155.4**
Impairment			
Low risk	-	-	**-**
Medium risk	(1.6)	(0.3)	**(1.9)**
High risk	(3.0)	(0.8)	**(3.8)**
	(4.6)	(1.1)	**(5.7)**
Net lease incentive included within accrued income	132.3	17.4	**149.7**

	Trade receivables £m
Balance before impairment	
Low risk	**14.2**
Medium risk	**7.5**
High risk	**9.0**
	30.7
Impairment	
Low risk	**-**
Medium risk	**(0.3)**
High risk	**(2.9)**
	(3.2)
Net trade receivables	**27.5**

All amounts included within trade receivables are current.

Borrowings and derivatives
The fair values of the Group's borrowings and interest rate swaps are provided by an independent third party based on information provided to them by the Group. This includes the terms of each of the financial instruments and data available in the financial markets. More information is provided in note 18.

Significant judgements

Compliance with the real estate investment trust (REIT) taxation regime
As a REIT, the Group benefits from tax advantages. Income and chargeable gains on the qualifying property rental business are exempt from corporation tax. Income that does not qualify as property income within the REIT rules is subject to corporation tax in the normal way. There are a number of tests that are applied annually, and in relation to forecasts, to ensure the Group remains well within the limits allowed within those tests.

The Group met all the criteria in 2020 with a substantial margin in each case, thereby ensuring its REIT status is maintained. The Directors intend that the Group should continue as a REIT for the foreseeable future.

The Group has maintained its low risk rating with HMRC following continued regular dialogue and a focus on transparency and full disclosure.

4. Segmental information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is the Executive Committee comprising the five executive Directors and four senior managers) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the EPRA earnings and net asset value. Reconciliations of each of these figures to their statutory equivalents are detailed in note 24. Additionally, information is provided to the Executive Committee showing gross property income and property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate reportable segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and trading property and comprised 98% office buildings[1] by value at 31 December 2020 (2019: 97%). The Directors consider that these individual properties have similar economic characteristics and therefore have been aggregated into a single reportable segment. The remaining 2% (2019: 3%) represented a mixture of retail, residential and light industrial properties, as well as land, each of which is de minimis in its own right and below the quantitative threshold in aggregate. Therefore, in the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

All of the Group's properties are based in the UK. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required by IFRS 8. However, geographical analysis is included in the tables below to provide users with additional information regarding the areas contained in the strategic report. The majority of the Group's properties are located in London (West End central, West End borders/other and City borders), with the remainder in Scotland (Provincial).

[1] Some office buildings have an ancillary element such as retail or residential.

Gross property income

	2020			2019		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
West End central	104.3	0.1	**104.4**	87.3	0.1	87.4
West End borders/other	20.4	-	**20.4**	19.3	-	19.3
City borders	74.9	0.5	**75.4**	81.1	0.5	81.6
Provincial	-	4.5	**4.5**	-	4.4	4.4
	199.6	5.1	**204.7**	187.7	5.0	192.7

A reconciliation of gross property income to gross property and other income is given in note 5.

Property portfolio

	2020			2019		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	2,936.7	45.9	**2,982.6**	2,933.6	58.0	2,991.6
West End borders/other	447.9	-	**447.9**	434.8	-	434.8
City borders	1,738.2	8.0	**1,746.2**	1,860.2	7.7	1,867.9
Provincial	-	75.9	**75.9**	-	84.6	84.6
	5,122.8	129.8	**5,252.6**	5,228.6	150.3	5,378.9
Fair value						
West End central	2,966.2	47.4	**3,013.6**	2,944.1	60.5	3,004.6
West End borders/other	475.4	-	**475.4**	464.2	-	464.2
City borders	1,781.7	8.1	**1,789.8**	1,912.8	7.7	1,920.5
Provincial	-	76.7	**76.7**	-	85.9	85.9
	5,223.3	132.2	**5,355.5**	5,321.1	154.1	5,475.2

A reconciliation between the fair value and carrying value of the portfolio is set out in note 11.

5. Property and other income

	2020 £m	2019 £m
Gross rental income	**202.9**	191.7
Surrender premiums received	**0.9**	1.0
Other property income	**0.9**	-
Gross property income	**204.7**	192.7
Trading property sales proceeds[1]	**32.3**	-
Service charge income[1]	**28.1**	34.0
Other income[1]	**3.5**	3.6
Gross property and other income	**268.6**	230.3
Gross rental income	**202.9**	191.7
Write-off/impairment of receivables	**(10.1)**	-
Service charge waiver	**(4.1)**	-
Service charge income[1]	**28.1**	34.0
Service charge expenses	**(30.9)**	(36.1)
	(2.8)	(2.1)
Property costs	**(11.6)**	(11.6)
Net rental income	**174.3**	178.0
Trading property sales proceeds[1]	**32.3**	-
Trading property cost of sales	**(27.1)**	-
Profit on trading property disposals	**5.2**	-
Other property income	**0.9**	-
Other income[1]	**3.5**	3.6
Surrender premiums received	**0.9**	1.0
Write-down of trading property	**(1.8)**	-
Net property and other income	**183.0**	182.6

[1] In line with IFRS 15 Revenue from Contracts with Customers, the Group recognised a total £63.9m (2019: £37.6m) of other income, trading property sales proceeds and service charge income, which relates to expenditure that is directly recoverable from tenants, within gross property and other income.

Gross rental income includes £24.0m (2019: £27.3m) relating to rents recognised in advance of cash receipts.

Other income relates to fees and commissions earned from tenants in relation to the management of the Group's properties and was recognised in the Group income statement in accordance with the delivery of services.

The write-off/impairment of receivables in the year ended 31 December 2020 of £10.1m includes £1.2m of receivable balances written off, a £0.3m service charge provision and an impairment charge of £8.6m, £2.9m of which relates to trade receivables and £5.7m to lease incentive receivables. The impairment has been carried out using the expected credit loss model within IFRS 9 Financial Instruments (see note 3 for additional information). Included in this provision is a charge of £1.1m against trade receivables relating to rental income for the 25 December 2020 quarter day. Most of this income is deferred and has not yet been recognised in the income statement. A 10% increase/decrease to the absolute probability rates of tenant default in the year would result in a £4.4m increase and £3.3m decrease respectively, in the Group's loss for the year. This sensitivity has been performed on the medium to high risk tenants as the significant estimation uncertainty is wholly related to these (see note 3).

In response to Covid-19, a 25% waiver of two quarters' service charge was given to support occupiers across the whole portfolio at a cost of £4.1m to the Group in the year to 31 December 2020.

6. Profit on disposal

	2020 **£m**	2019 £m
Investment property		
Gross disposal proceeds	**120.9**	155.2
Costs of disposal	**(0.6)**	(1.9)
Net disposal proceeds	**120.3**	153.3
Carrying value	**(118.6)**	(136.8)
Adjustment for lease costs and rents recognised in advance	**-**	(3.3)
Profit on disposal of investment property	**1.7**	13.2
Artwork		
Gross disposal proceeds	**-**	1.2
Carrying value	**-**	(0.6)
Profit on disposal of artwork	**-**	0.6
Profit on disposal	**1.7**	13.8

In February 2020, the Group completed the disposal of the long leasehold interest in 40 Chancery Lane WC2 for £120.1m after rental top-ups. In 2019, gross disposal proceeds included £150.7m after rental top-ups from the disposal of Premier House SW1 and The Buckley Building EC1.

7. Finance income and total finance costs

	2020 **£m**	2019 £m
Finance income		
Bank interest receivable	**0.2**	-
Other	**-**	0.2
Finance income	**0.2**	0.2
Finance costs		
Bank loans	**2.3**	2.1
Non-utilisation fees	**1.7**	2.1
Unsecured convertible bonds	**3.9**	3.9
Secured bonds	**11.4**	11.4
Unsecured private placement notes	**15.6**	15.0
Secured loan	**3.3**	3.3
Amortisation of issue and arrangement costs	**2.2**	2.2
Amortisation of the fair value of the secured bonds	**(1.3)**	(1.2)
Obligations under headleases	**0.9**	0.7
Other	**0.2**	0.2
Gross interest costs	**40.2**	39.7
Less: interest capitalised	**(9.9)**	(13.0)
Finance costs	**30.3**	26.7
Loan arrangement costs written off	**0.1**	0.1
Bond redemption premium	**-**	7.7
Total finance costs	**30.4**	34.5

Finance costs of £9.9m (2019: £13.0m) have been capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowings during each quarter. Total finance costs paid to 31 December 2020 were £38.2m (2019: £34.8m) of which £9.9m (2019: £13.0m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

8. Financial derivative termination costs

The Group incurred costs of £1.7m in the year to 31 December 2020 (2019: £2.7m) deferring or terminating interest rate swaps.

9. Share of results of joint ventures

	2020 £m	2019 £m
Profit on disposal of investment property	**-**	1.7
Other profit from operations after tax	**-**	0.2
	-	1.9

See note 13 for further details on the Group's joint ventures.

10. Tax (credit)/charge

	2020 £m	2019 £m
Corporation tax		
UK corporation tax and income tax in respect of results for the year	**0.8**	1.0
Other adjustments in respect of prior years' tax	**(0.6)**	0.7
Corporation tax charge	**0.2**	1.7
Deferred tax		
Origination and reversal of temporary differences	**(2.0)**	0.8
Adjustment for changes in estimates	**0.2**	-
Deferred tax (credit)/charge	**(1.8)**	0.8
Tax (credit)/charge	**(1.6)**	2.5

In addition to the tax credit of £1.6m (2019: charge of £2.5m) that passed through the Group income statement, a deferred tax charge of £0.2m (2019: credit of £0.1m) was recognised in the Group statement of comprehensive income relating to the revaluation of the owner-occupied property at 25 Savile Row W1.

The effective rate of tax for 2020 is lower (2019: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2020 £m	2019 £m
(Loss)/profit before tax	**(83.0)**	280.6
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)[1]	**(15.8)**	53.3
Difference between tax and accounting profit on disposals	**1.2**	(2.6)
REIT exempt income	**(14.7)**	(11.2)
Revaluation deficit/(surplus) attributable to REIT properties	**36.6**	(29.2)
Expenses and fair value adjustments not allowable for tax purposes	**(1.3)**	(4.4)
Capital allowances	**(5.3)**	(5.5)
Other differences	**(1.7)**	1.4
Tax (credit)/charge on current year's (loss)/profit	**(1.0)**	1.8
Adjustments in respect of prior years' tax	**(0.6)**	0.7
Tax (credit)/charge	**(1.6)**	2.5

[1] Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and include reducing the main rate to 19%. The reduction to 17% from 1 April 2020 enacted as part of the Finance Bill 2016 has been cancelled as announced in the Budget on 11 March 2020, maintaining the rate of corporation tax at 19%. Deferred taxes at the balance sheet date have been measured using the expected enacted tax rate and this is reflected in these financial statements.

11. Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
Carrying value							
At 1 January 2020	4,121.2	1,053.1	5,174.3	45.3	118.6	40.7	5,378.9
Acquisitions	43.5	-	43.5	-	-	-	43.5
Capital expenditure	64.1	87.8	151.9	(0.1)	-	0.1	151.9
Interest capitalisation	4.6	5.1	9.7	-	-	0.2	9.9
Additions	112.2	92.9	205.1	(0.1)	-	0.3	205.3
Disposals	-	-	-	-	(118.6)	(26.3)	(144.9)
Transfers	(161.2)	-	(161.2)	-	161.2	-	-
Revaluation	(178.7)	(17.4)	(196.1)	0.4	-	-	(195.7)
Write-down of trading property	-	-	-	-	-	(1.8)	(1.8)
Transfer from prepayments and accrued income	-	-	-	-	3.8	-	3.8
Movement in grossing up of headlease liabilities	-	7.0	7.0	-	-	-	7.0
At 31 December 2020	**3,893.5**	**1,135.6**	**5,029.1**	**45.6**	**165.0**	**12.9**	**5,252.6**
At 1 January 2019	4,034.1	994.1	5,028.2	47.0		36.3	5,111.5
Acquisitions	21.0	11.0	32.0	-	-	-	32.0
Capital expenditure	110.7	76.8	187.5	0.1	-	3.6	191.2
Interest capitalisation	7.7	4.5	12.2	-	-	0.8	13.0
Additions	139.4	92.3	231.7	0.1	-	4.4	236.2
Disposals	(137.1)	0.3	(136.8)	-	-	-	(136.8)
Transfers	-	(107.0)	(107.0)	-	107.0	-	-
Revaluation	84.8	71.6	156.4	(1.8)	-	-	154.6
Transfer from prepayments and accrued income	-	-	-	-	14.6	-	14.6
Movement in grossing up of headlease liabilities	-	1.8	1.8	-	(3.0)	-	(1.2)
At 31 December 2019	4,121.2	1,053.1	5,174.3	45.3	118.6	40.7	5,378.9

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
Adjustments from fair value to carrying value							
At 31 December 2020							
Fair value	**4,037.0**	**1,091.6**	**5,128.6**	**45.6**	**167.0**	**14.3**	**5,355.5**
Selling costs relating to assets held for sale	-	-	-	-	(2.0)	-	(2.0)
Revaluation of trading property	-	-	-	-	-	(1.4)	(1.4)
Lease incentives and costs included in receivables	(143.5)	(22.5)	(166.0)	-	-	-	(166.0)
Grossing up of headlease liabilities	-	66.5	66.5	-	-	-	66.5
Carrying value	**3,893.5**	**1,135.6**	**5,029.1**	**45.6**	**165.0**	**12.9**	**5,252.6**
At 31 December 2019							
Fair value	4,257.7	1,010.2	5,267.9	45.3	119.0	43.0	5,475.2
Selling costs relating to assets held for sale	-	-		-	(0.4)	-	(0.4)
Revaluation of trading property	-	-	-	-	-	(2.3)	(2.3)
Lease incentives and costs included in receivables	(136.5)	(16.6)	(153.1)	-	-	-	(153.1)
Grossing up of headlease liabilities	-	59.5	59.5	-	-	-	59.5
Carrying value	4,121.2	1,053.1	5,174.3	45.3	118.6	40.7	5,378.9

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2020 by external valuers on the basis of fair value in accordance with The RICS Valuation – Professional Standards, which takes account of the properties' highest and best use. When considering the highest and best use of a property, the external valuers will consider its existing and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the external valuers will consider the costs and the likelihood of achieving and implementing this change in arriving at the property valuation. There were no such instances in the year.

CBRE Limited valued properties at £5,324.5m (2019: £5,443.0m) and other valuers at £31.0m (2019: £32.2m), giving a combined value of £5,355.5m (2019: £5,475.2m). Of the properties revalued by CBRE, £45.6m (2019: £45.3m) relating to owner-occupied property was included within property, plant and equipment and £14.3m (2019: £43.0m) was in relation to trading property.

The total fees, including the fee for this assignment, earned by CBRE (or other companies forming part of the same group of companies within the UK) from the Group is less than 5.0% of their total UK revenues.

The Group published its pathway to net zero carbon in July 2020 and has set 2030 as its target date to achieve this. £103.2m of capital expenditure was incurred in 2020 on our major developments at 80 Charlotte Street W1, Soho Place W1 and The Featherstone Building EC1. As these have met the criteria to be eligible qualifying projects under our Green Finance Framework, we have utilised the green tranche of our £450m revolving credit facility. In addition, the Group has invested in carbon credits to support externally validated green projects to offset the embedded carbon in our developments.

Following exchange of contracts in December 2020 for the sale of its freehold interest in Johnson Building EC1, the Group transferred £161.2m from investment property to assets held for sale. This subsequently completed in January 2021. A revaluation deficit of £9.5m relating to the asset held for sale is included within the revaluation deficit of £196.1m.

Reconciliation of revaluation (deficit)/surplus

	2020 £m	2019 £m
Total revaluation (deficit)/surplus	**(178.5)**	188.5
Less:		
Lease incentives and costs	**(16.7)**	(32.2)
Assets held for sale selling costs	**(2.0)**	(0.4)
Trading property revaluation surplus	**(0.3)**	(1.3)
IFRS revaluation (deficit)/surplus	**(197.5)**	154.6
Reported in the:		
Revaluation (deficit)/surplus	**(196.1)**	156.4
Write-down of trading property	**(1.8)**	-
Group income statement	**(197.9)**	156.4
Group statement of comprehensive income	**0.4**	(1.8)
	(197.5)	154.6

Historical cost

	2020 £m	2019 £m
Investment property	**3,149.2**	3,009.7
Owner-occupied property	**19.6**	19.7
Assets held for sale	**65.7**	76.2
Trading property	**22.6**	48.6
Total property portfolio	**3,257.1**	3,154.2

Sensitivity of measurement to variations in the significant unobservable inputs

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are shown below:

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Gross ERV	Increase	Decrease
Net initial yield	Decrease	Increase
Reversionary yield	Decrease	Increase
True equivalent yield	Decrease	Increase

There are inter-relationships between these inputs as they are partially determined by market conditions. An increase in the reversionary yield may accompany an increase in gross ERV and would mitigate its impact on the fair value measurement.

Against the increased economic uncertainty of the pandemic, a sensitivity analysis has been performed to ascertain the impact of a 25 basis point shift in true equivalent yield and a £2.50 per sq ft shift in ERV on the property valuations. The Group believes this captures the range of variations in these key valuation assumptions. The results are shown in the tables below:

	West End central	West End borders/other	City borders	Provincial commercial	Provincial land	Total
True equivalent yield						
+25bp	(5.2%)	(4.8%)	(5.0%)	(2.8%)	(2.3%)	(5.1%)
-25bp	5.7%	5.3%	5.5%	2.9%	2.4%	5.6%
ERV						
+£2.50 psf	4.2%	5.1%	4.8%	17.9%	-	4.7%
-£2.50 psf	(4.2%)	(5.1%)	(4.8%)	(17.9%)	-	(4.7%)

12. Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
At 1 January 2020	45.3	1.0	3.9	50.2
Additions	(0.1)	-	0.4	0.3
Depreciation	-	-	(0.7)	(0.7)
Revaluation	0.4	-	-	0.4
At 31 December 2020	**45.6**	**1.0**	**3.6**	**50.2**
At 1 January 2019	47.0	1.6	4.5	53.1
Additions	0.1	-	0.2	0.3
Disposals	-	(0.6)	(0.1)	(0.7)
Depreciation	-	-	(0.7)	(0.7)
Revaluation	(1.8)	-	-	(1.8)
At 31 December 2019	45.3	1.0	3.9	50.2
Net book value				
Cost or valuation	45.6	1.0	7.3	53.9
Accumulated depreciation	-	-	(3.7)	(3.7)
At 31 December 2020	**45.6**	**1.0**	**3.6**	**50.2**
Net book value				
Cost or valuation	45.3	1.0	6.9	53.2
Accumulated depreciation	-	-	(3.0)	(3.0)
At 31 December 2019	45.3	1.0	3.9	50.2

The artwork is periodically valued by Bonhams on the basis of fair value using their extensive market knowledge. The latest valuation was carried out in May 2018 and, after allowing for the artwork disposal in 2019, the Directors consider that there have been no material valuation movements since that date. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historical cost of the artwork in the Group at 31 December 2020 was £1.0m (2019: £1.0m). See note 11 for the historical cost of owner-occupied property.

13. Investments

Although the respective property interests have now been disposed of, the Group has a continuing 50% interest in three joint venture vehicles, Dorrington Derwent Holdings Limited, Primister Limited and Prescot Street Limited Partnership.

	2020 £m	2019 £m
At 1 January	**1.3**	29.1
Share of results of joint ventures (see note 9)	**-**	1.9
Additions	**-**	0.6
Repayment of shareholder loan	**-**	(21.3)
Distributions received	**(0.4)**	(9.0)
At 31 December	**0.9**	1.3

14. Other receivables (non-current)

	2020 £m	2019 £m
Prepayments and accrued income	**146.4**	134.4

Prepayments and accrued income include £132.3m (2019: £119.7m) after impairments (see note 3) relating to rents recognised in advance as a result of spreading tenant lease incentives over the expected terms of their respective leases. This includes rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts. In addition, £14.1m (2019: £14.7m) relates to the spreading effect of the initial direct costs of letting over the same term. Together with £19.6m (2019: £18.7m), which was included as accrued income within trade and other receivables (see note 15), these amounts totalled £166.0m at 31 December 2020 (2019: £153.1m).

The total movement in tenant lease incentives is shown below:

	2020 £m	2019 £m
At 1 January	**135.9**	123.5
Amounts taken to income statement	**23.0**	27.3
Capital incentives granted	**0.5**	1.8
Lease incentive impairment	**(5.7)**	-
Adjustment for non-current asset held for sale	**(3.2)**	(13.9)
Disposal of investment properties	**-**	(2.8)
Write off to bad debt	**(0.8)**	-
	149.7	135.9
Amounts included in trade and other receivables (see note 15)	**(17.4)**	-
At 31 December	**132.3**	135.9

15. Trade and other receivables

	2020 £m	2019 £m
Trade receivables	**27.5**	7.9
Other receivables	**4.1**	4.4
Prepayments	**22.6**	20.6
Accrued income	**22.0**	25.7
	76.2	58.6

Trade receivables are split as follows:

	2020 £m	2019 £m
less than three months due	**17.4**	7.8
between three and six months due	**3.5**	0.1
between six and twelve months due	**6.6**	-
	27.5	7.9

Trade receivables at 31 December 2020 increased due to a delay in tenant rent payments resulting from the impact of Covid-19. As a result, the expected credit loss assessment under IFRS 9 (see note 3) resulted in a higher impairment provision.

The Group has £9.3m of provision for bad debts as shown below. £3.6m are included in trade receivables, £1.1m in accrued income and £4.6m in prepayments and accrued income within other receivables (non-current) (note 14).

Provision for bad debts

	2020 **£m**	2019 £m
At 1 January	**0.4**	0.3
Lease incentive provision	**5.7**	-
Trade receivables provision	**3.2**	0.1
Service charge provision	**0.3**	-
Released	**(0.3)**	-
At 31 December	**9.3**	0.4

The provision for bad debts are split as follows:

	2020 **£m**	2019 £m
less than three months due	**3.2**	0.4
between three and six months due	**0.5**	-
between six and twelve months due	**1.0**	-
greater than twelve months due	**4.6**	-
	9.3	0.4

16. Non-current assets held for sale

	2020 **£m**	2019 £m
Transferred from investment properties (see note 11)	**161.2**	107.0
Transferred from prepayments and accrued income	**3.8**	14.6
Movement in grossing up of headlease liabilities	**-**	(3.0)
	165.0	118.6

In December 2020, the Group exchanged contracts for the sale of its freehold interest in Johnson Building EC1. The property was valued at £167.0m at 31 December 2020. In accordance with IFRS 5 Non-current Assets Held for Sale, this property was recognised as a non-current asset held for sale and, after deducting selling costs of £2.0m, the carrying value was £165.0m (see note 11).

17. Trade and other payables

	2020 **£m**	2019 £m
Trade payables	**2.5**	7.2
Other payables	**21.2**	19.8
Other taxes	**4.0**	2.1
Accruals	**32.0**	38.6
Deferred income	**47.0**	44.8
	106.7	112.5

Deferred income primarily relates to rents received in advance.

18. Net debt and derivative financial instruments

	2020		2019	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current liabilities				
1.5% unsecured convertible bonds 2025	**166.4**	**174.2**	164.5	183.9
6.5% secured bonds 2026	**183.6**	**220.3**	184.8	222.8
Unsecured private placement notes 2026 - 2034	**452.9**	**526.4**	452.4	493.7
3.99% secured loan 2024	**82.3**	**89.1**	82.1	87.8
Unsecured bank loans	**120.1**	**125.0**	65.0	68.5
Secured bank loans	**27.9**	**28.0**	27.8	28.0
Borrowings	**1,033.2**	**1,163.0**	976.6	1,084.7
Derivative financial instruments expiring in greater than one year	**5.6**	**5.6**	3.7	3.7
Total borrowings and derivative financial instruments	**1,038.8**	**1,168.6**	980.3	1,088.4

	2020	2019
Reconciliation to net debt:		
Borrowings and derivative financial instruments	**1,038.8**	980.3
Adjustments for:		
Leasehold liabilities	**66.6**	59.5
Derivative financial instruments	**(5.6)**	(3.7)
Cash and cash equivalents	**(50.7)**	(54.5)
Net debt	**1,049.1**	981.6

The fair values of the Group's bonds have been estimated on the basis of quoted market prices, representing Level 1 fair value measurement as defined by IFRS 13 Fair Value Measurement.

The fair values of the 3.99% secured loan and the unsecured private placement notes were determined by comparing the discounted future cash flows using the contracted yield with those of the reference gilts plus the implied margins, and represent Level 2 fair value measurement.

The fair values of the Group's outstanding interest rate swaps have been estimated by using the mid-point of the yield curves prevailing on the reporting date and represent the net present value of the differences between the contracted rate and the valuation rate when applied to the projected balances for the period from the reporting date to the contracted expiry dates. These represent Level 2 fair value measurement.

The fair value of the Group's bank loans is approximately the same as their carrying amount, after adjusting for the unamortised arrangement fees, and also represents Level 2 fair value measurement.

The fair value of the following financial assets and liabilities are the same as their carrying amounts:

- Cash and cash equivalents.
- Trade receivables, other receivables and accrued income included within trade and other receivables.
- Trade payables, other payables and accruals included within trade and other payables.
- Leasehold liabilities.

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2020 or 2019.

At 31 December 2020, the Group's secured bank loan and the 3.99% secured loan 2024 were secured by a fixed charge over £105.2m (31 December 2019: £105.7m) and £304.5m (31 December 2019: £311.6m), respectively, of the Group's properties. In addition, the secured bonds 2026 were secured by a floating charge over a number of the Group's subsidiary companies which contained £616.5m (31 December 2019: £634.5m) of the Group's properties.

The Group continue to maintain significant headroom on all financial covenants.

19. Deferred tax

	Revaluation deficit/(surplus) £m	Other £m	Total £m
At 1 January 2020	3.3	(2.1)	1.2
Credited to the income statement	(0.3)	(1.7)	(2.0)
Change in tax rates in the income statement	0.3	(0.1)	0.2
Charged/(credited) to other comprehensive income	0.1	(0.4)	(0.3)
Charged to equity	-	1.3	1.3
Change in tax rates in other comprehensive income	0.1	-	0.1
At 31 December 2020	**3.5**	**(3.0)**	**0.5**
At 1 January 2019	3.6	(1.8)	1.8
(Credited)/charged to the income statement	(0.2)	1.0	0.8
Credited to other comprehensive income	(0.1)	-	(0.1)
Credited to equity	-	(1.3)	(1.3)
At 31 December 2019	3.3	(2.1)	1.2

Deferred tax on the balance sheet revaluation surplus is calculated on the basis of the chargeable gains that would crystallise on the sale of the property portfolio at each balance sheet date. The calculation takes account of any available indexation on the historical cost of the properties. Due to the Group's REIT status, deferred tax is only provided at each balance sheet date on properties outside the REIT regime.

In 2019, £1.3m was credited to equity relating to equity settled share-based payments and represented the amount by which the total expected tax deduction exceeded the cumulative IFRS 2 expense. In 2020, the £1.3m charge reverses this to a nil balance.

20. Dividend

	Payment date	Dividend per share PID p	Dividend per share Non-PID p	Dividend per share Total p	**2020 £m**	2019 £m
Current year						
2020 final dividend[1]	4 June 2021	35.00	17.45	52.45	**-**	-
2020 interim dividend	16 October 2020	22.00	-	22.00	**24.6**	-
		57.00	17.45	74.45		
Prior year						
2019 final dividend	5 June 2020	34.45	17.00	51.45	**57.6**	-
2019 interim dividend	18 October 2019	21.00	-	21.00	**-**	23.4
		55.45	17.00	72.45		
2018 final dividend	7 June 2019	30.00	16.75	46.75	**-**	52.2
Dividends as reported in the Group statement of changes in equity					**82.2**	75.6
2020 interim dividend withholding tax	14 January 2021				**(3.2)**	-
2019 interim dividend withholding tax	14 January 2020				**2.8**	(2.8)
2018 interim dividend withholding tax	14 January 2019				**-**	2.3
Dividends paid as reported in the Group cash flow statement					**81.8**	75.1

[1] Subject to shareholder approval at the AGM on 14 May 2021.

21. Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank	**50.7**	54.5

22. Post balance sheet events

In January 2021, the Group completed the disposal of its freehold interest in Johnson Building EC1 for £167.6m.

23. Related parties

There have been no related party transactions for the year ended 31 December 2020 that have materially affected the financial position or performance of the Group. All related party transactions are materially consistent with those disclosed by the Group in its financial statements.

24. EPRA performance measures (unaudited)

Number of shares

	Earnings per share Weighted average		Net asset value per share At 31 December	
	2020 '000	2019 '000	**2020 '000**	2019 '000
For use in basic measures	**111,912**	111,652	**111,961**	111,773
Dilutive effect of share-based payments	**350**	315	**341**	400
For use in diluted measures	**112,262**	111,967	**112,302**	112,173

The £175m unsecured convertible bonds 2025 ('2025 bonds') have an initial conversion price set at £44.96. The £150m unsecured convertible bonds 2019 ('2019 bonds') were repurchased in 2019.

The Group recognises the effect of conversion of the bonds if they are both dilutive and, based on the share price, likely to convert. For the year ended 31 December 2019 and 2020, the Group did not recognise the dilutive impact of the conversion of the 2019 bonds or 2025 bonds on its earnings per share (EPS) or net asset value (NAV) per share metrics as, based on the share price at the end of each year, the bonds were not expected to convert.

The following tables set out reconciliations between the IFRS and EPRA earnings for the year and earnings per share. The adjustments made between the figures are as follows:

A – Disposal of investment and trading property (including the Group's share in joint ventures), and associated tax and non-controlling interest.
B – Revaluation movement on investment property and in joint ventures, write-down of trading property and associated deferred tax and non-controlling interest.
C – Fair value movement and termination costs relating to derivative financial instruments, associated non-controlling interest, the fair value part of the bond redemption premium and loan arrangement costs written off.

The Group has adopted the new set of EPRA NAV metrics effective for the period beginning 1 January 2020. A reconciliation between the new and the previous metrics for both the current and comparative accounting periods is presented below.

Earnings and earnings per share

	IFRS	Adjustments A	Adjustments B	Adjustments C	EPRA basis
	£m	£m	£m	£m	£m
Year ended 31 December 2020					
Net property and other income	183.0	(5.2)	1.8	-	179.6
Total administrative expenses	(37.8)	-	-	-	(37.8)
Revaluation deficit	(196.1)	-	196.1	-	-
Profit on disposal of investments	1.7	(1.7)	-	-	-
Net finance costs	(30.2)	-	-	0.1	(30.1)
Movement in fair value of derivative financial instruments	(1.9)	-	-	1.9	-
Financial derivative termination costs	(1.7)	-	-	1.7	-
(Loss)/profit before tax	(83.0)	(6.9)	197.9	3.7	111.7
Tax credit	1.6	(1.0)	-	-	0.6
(Loss)/profit for the year	(81.4)	(7.9)	197.9	3.7	112.3
Non-controlling interest	3.8	-	(5.1)	-	(1.3)
Earnings attributable to equity shareholders	**(77.6)**	**(7.9)**	**192.8**	**3.7**	**111.0**
(Loss)/earnings per share	**(69.34p)**				**99.19p**
Diluted (loss)/earnings per share	(69.34p)				98.88p

The diluted loss per share for the period to 31 December 2020 have been restricted to a loss of 69.34p per share, as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share.

	IFRS	Adjustments A	Adjustments B	Adjustments C	EPRA basis
	£m	£m	£m	£m	£m
Year ended 31 December 2019					
Net property and other income	182.6	-	-	-	182.6
Total administrative expenses	(37.0)	-	-	-	(37.0)
Revaluation surplus	156.4	-	(156.4)	-	-
Profit on disposal of investments	13.8	(13.8)	-	-	-
Net finance costs	(34.3)	-	-	7.8	(26.5)
Movement in fair value of derivative financial instruments	(0.1)	-	-	0.1	-
Financial derivative termination costs	(2.7)	-	-	2.7	-
Share of results of joint ventures	1.9	(1.7)	-	-	0.2
Profit before tax	280.6	(15.5)	(156.4)	10.6	119.3
Tax charge	(2.5)	0.7	(0.2)	-	(2.0)
Profit for the year	278.1	(14.8)	(156.6)	10.6	117.3
Non-controlling interest	5.3	-	(7.5)	-	(2.2)
Earnings attributable to equity shareholders	283.4	(14.8)	(164.1)	10.6	115.1
Earnings per share	253.82p				103.09p
Diluted earnings per share	253.11p				102.80p

EPRA Net Asset Value metrics

	2020 £m	2019 £m
Net assets attributable to equity shareholders	4,263.2	4,421.2
Adjustment for:		
Revaluation of trading properties	1.4	2.3
Deferred tax on revaluation surplus[1]	1.8	1.6
Fair value of derivative financial instruments	5.6	3.7
Fair value adjustment to secured bonds	9.3	10.6
Non-controlling interest in respect of the above[1]	(0.4)	(0.4)
EPRA Net Tangible Assets	**4,280.9**	4,439.0
Per share measure - diluted	**3,812p**	3,957p
Net assets attributable to equity shareholders	4,263.2	4,421.2
Adjustment for:		
Revaluation of trading properties	1.4	2.3
Fair value adjustment to secured bonds	9.3	10.6
Mark-to-market of fixed rate debt	(127.8)	(107.2)
Unamortised issue and arrangement costs	(11.3)	(11.5)
EPRA Net Disposal Value	**4,134.8**	4,315.4
Per share measure - diluted	**3,682p**	3,847p
Net assets attributable to equity shareholders	4,263.2	4,421.2
Adjustment for:		
Revaluation of trading properties	1.4	2.3
Deferred tax on revaluation surplus	3.5	3.3
Fair value of derivative financial instruments	5.6	3.7
Fair value adjustment to secured bonds	9.3	10.6
Non-controlling interest in respect of the above	(0.7)	(0.8)
Purchasers' costs[2]	364.2	372.3
EPRA Net Reinstatement Value	**4,646.5**	4,812.6
Per share measure - diluted	**4,138p**	4,290p

[1] Only 50% of the deferred tax on the revaluation surplus is excluded.
[2] Includes Stamp Duty Land Tax. Total costs assumed to be 6.8% of the portfolio’s fair value.

Reconciliation of new EPRA Net Asset Value metrics to previous metrics

	2020 £m	2019 £m
EPRA Net Tangible Assets	4,280.9	4,439.0
Adjustment for:		
Deferred tax on revaluation surplus	1.8	1.7
Non-controlling interest in respect of the above	(0.4)	(0.4)
EPRA Net Asset Value	**4,282.3**	4,440.3
Per share measure - diluted	**3,813p**	3,958p
EPRA Net Reinstatement Value	4,646.5	4,812.6
Adjustment for:		
Purchasers' costs	(364.2)	(372.3)
EPRA Net Asset Value	**4,282.3**	4,440.3
Per share measure - diluted	**3,813p**	3,958p

As the Group's EPRA Net Disposal Value is the same as the EPRA Triple Net Asset Value, there are no reconciling items.

EPRA Net Disposal Value	**4,134.8**	4,315.4
Per share measure - diluted	**3,682p**	3,847p

Cost ratios

	2020 £m	2019 £m
Administrative expenses	**37.8**	37.0
Write-off/impairment of receivables (A)	**10.1**	-
Service charge waiver (A)	**4.1**	-
Other property costs	**10.5**	10.1
Net service charge costs	**2.8**	2.1
Service charge costs recovered through rents but not separately invoiced	**(0.4)**	(0.5)
Management fees received less estimated profit element	**(3.5)**	(3.6)
Share of joint ventures' expenses	**-**	0.3
EPRA costs (including direct vacancy costs) (B)	**61.4**	45.4
Direct vacancy costs	**(9.0)**	(2.6)
EPRA costs (excluding direct vacancy costs) (C)	**52.4**	42.8
Gross rental income	**202.9**	191.7
Ground rent	**(1.1)**	(1.5)
Service charge components of rental income	**(0.4)**	(0.5)
Share of joint ventures' rental income less ground rent	**-**	0.5
Adjusted gross rental income (D)	**201.4**	190.2
EPRA cost ratio (including direct vacancy costs) (B/D)	**30.5%**	23.9%
EPRA cost ratio (excluding direct vacancy costs) (C/D)	**26.0%**	22.5%
Adjusted EPRA Cost Ratios[1]		
Adjusted EPRA Cost Ratio (including direct vacancy costs and excluding write-off/impairment of receivables) ((B-A)/D)	**23.4%**	23.9%
Adjusted EPRA Cost Ratio (excluding direct vacancy costs and excluding write-off/impairment of receivables) ((C-A)/D)	**19.0%**	22.5%

In addition to the two EPRA cost ratios, the Group has calculated an additional cost ratio based on its property portfolio fair value to recognise the 'total return' nature of the Group's activities.

	2020 £m	2019 £m
Property portfolio at fair value (E)	**5,355.5**	5,475.2
Portfolio cost ratio (B/E)	**1.1%**	0.8%

[1] In addition to the standard EPRA Cost Ratios (both including and excluding direct vacancy costs), adjusted versions of these ratios have also been presented which remove the impact of the write-off/impairment of receivables and service charge waiver.

The Group has not capitalised any overheads in either 2020 or 2019.

Property-related capital expenditure

	2020 £m	2019 £m
Acquisitions	**43.5**	32.0
Development	**134.1**	167.9
Investment properties		
Incremental lettable space	**-**	1.1
No incremental lettable space	**16.3**	16.0
No incremental lettable space - joint ventures	**-**	0.1
Tenant incentives	**1.5**	6.1
Capitalised interest	**9.9**	13.0
Total capital expenditure	**205.3**	236.2
Conversion from accrual to cash basis	**13.1**	(4.1)
Total capital expenditure on a cash basis	**218.4**	232.1

25. Gearing and interest cover

NAV gearing

	2020 £m	2019 £m
Net debt	**1,049.1**	981.6
Net assets	**4,315.1**	4,476.9
NAV gearing	**24.3%**	21.9%

Loan-to-value ratio

	2020 £m	2019 £m
Net debt	**1,049.1**	981.6
Fair value adjustment of secured bonds	**(9.3)**	(10.6)
Unamortised issue and arrangement costs	**11.3**	11.5
Leasehold liabilities	**(66.6)**	(59.5)
Drawn debt net of cash	**984.5**	923.0
Fair value of property portfolio	**5,355.5**	5,475.2
Loan-to-value ratio	**18.4%**	16.9%

Net interest cover ratio

	2020 **£m**	2019 £m
Net property and other income	**183.0**	182.6
Adjustments for:		
Other income	**(3.5)**	(3.6)
Other property income	**(0.9)**	-
Surrender premiums received	**(0.9)**	(1.0)
Write-down of trading property	**1.8**	-
Profit on disposal of trading properties	**(5.2)**	-
Adjusted net property income	**174.3**	178.0
Finance income	**(0.2)**	(0.2)
Finance costs	**30.3**	26.7
Adjustments for:		
Finance income	**0.2**	0.2
Other finance costs	**(0.2)**	(0.2)
Amortisation of fair value adjustment to secured bonds	**1.3**	1.2
Amortisation of issue and arrangement costs	**(2.2)**	(2.2)
Finance costs capitalised	**9.9**	13.0
Net interest payable	**39.1**	38.5
Net interest cover ratio	**446%**	462%

26. Total return

	2020 **p**	2019 p
EPRA Net Tangible Assets on a diluted basis		
At end of year	**3,812**	3,957
At start of year	**(3,957)**	(3,775)
(Decrease)/increase	**(145)**	182
Dividend per share	**73**	68
(Decrease)/increase including dividend	**(72)**	250
Total return	**(1.8%)**	6.6%

27. List of definitions

Better Buildings Partnership (BBP)
The BBP is a collaboration of the UK's leading commercial property owners who are working together to improve the sustainability of existing commercial building stock.

Building Research Establishment Environmental Assessment Method (BREEAM)
An environmental impact assessment method for non-domestic buildings. Performance is measured across a series of ratings; Good, Very Good, Excellent and Outstanding.

Capital return
The annual valuation movement arising on the Group's portfolio expressed as a percentage return on the valuation at the beginning of the year adjusted for acquisitions and capital expenditure.

Carbon emissions Scopes 1, 2 and 3
Scope 1 – direct emissions;
Scope 2 – indirect emissions; and
Scope 3 – other indirect emissions.

CDP
The CDP is an organisation which works with shareholders and listed companies to facilitate the disclosure and reporting of climate change data and information.

Company Voluntary Arrangement (CVA)
An insolvency procedure allowing a company with debt problems or that is insolvent to reach a voluntary agreement with its creditors to repay its debt over a fixed period.

Department for Environment, Food and Rural Affairs (DEFRA)
The government department responsible for environmental protection, food production and standards, agriculture, fisheries and rural communities in the United Kingdom.

Diluted figures
Reported results adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds.

Earnings/earnings per share (EPS)
Earnings represent the profit or loss for the year attributable to equity shareholders and are divided by the weighted average number of ordinary shares in issue during the financial year to arrive at earnings per share.

Energy Performance Certificate (EPC)
An EPC is an asset rating detailing how energy efficient a building is, rated by carbon dioxide emission on a scale of A-G, where an A rating is the most energy efficient. They are legally required for any building that is to be put on the market for sale or rent.

Estimated rental value (ERV)
This is the external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

European Public Real Estate Association (EPRA)
A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA's Best Practices Recommendations includes guidelines for the calculation of the following performance measures which the Group has adopted.

- **EPRA Earnings Per Share**

Earnings from operational activities.

- **EPRA Net Reinstatement Value (NRV) per share**

NAV adjusted to reflect the value required to rebuild the entity and assuming that entities never sell assets. Assets and liabilities, such as fair value movements on financial derivatives are not expected to crystallise in normal circumstances and deferred taxes on property valuation surpluses are excluded.

- **EPRA Net Tangible Assets (NTA) per share**

Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.

- **EPRA Net Disposal Value (NDV) per share**

Represent the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.

- **EPRA Cost Ratio (including direct vacancy costs)**

EPRA costs as a percentage of gross rental income less ground rent (including share of joint venture gross rental income less ground rent). EPRA costs include administrative expenses, other property costs, net service charge costs and the share of joint ventures' overheads and operating expenses (net of any service charge costs), adjusted for service charge costs recovered through rents and management fees.

- **EPRA Cost Ratio (excluding direct vacancy costs)**

Calculated as above, but with an adjustment to exclude direct vacancy costs.

- **EPRA Net Initial Yield (NIY)**

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs.

- **EPRA 'topped-up' Net Initial Yield**

This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

- **EPRA Vacancy Rate**

Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio.

In addition, the Group has adopted the following recommendation for investment property reporting.

- **EPRA like-for-like rental income growth**

The growth in rental income on properties owned throughout the current and previous year under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either year and properties acquired or disposed of in either year.

Previous EPRA NAV metrics

- **EPRA Net Asset Value per share**

NAV adjusted to include trading properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.

- **EPRA Triple Net Asset Value per share**

EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable.

Fair value adjustment
An accounting adjustment to change the book value of an asset or liability to its market value.

Global 100 most sustainable companies
The Global 100 Index is a ranking of the world's most sustainable corporations. The list is compiled by Toronto-based media and investment advisory firm Corporate Knights. Each year, the latest iteration of the index is announced at the World Economic Forum in Davos, Switzerland.

Global Real Estate Sustainability Benchmark (GRESB)
The Global Real Estate Sustainability Benchmark is an initiative set up to assess the environmental and social performance of public and private real estate investments and allow investors to understand their performance.

Ground rent
The rent payable by the Group for its leasehold properties. Under IFRS, a liability is recognised using the discounted payments due. Fixed lease payments made are allocated between the interest payable and the reduction in the outstanding liability. Any variable payments are recognised in the income statement in the period to which it relates.

Headroom
This is the amount left to draw under the Group's loan facilities (i.e. the total loan facilities less amounts already drawn).

Interest rate swap
A financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are generally used by the Group to convert floating rate debt to fixed rates.

Key Performance Indicators (KPIs)
Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is annually assessed.

Leadership in Energy and Environmental Design (LEED)
LEED is a US based environmental impact assessment method for buildings. Performance is measured across a series of ratings – Certified, Silver, Gold and Platinum.

Lease incentives
Any incentive offered to occupiers to enter into a lease. Typically the incentive will be an initial rent free or half rent period, stepped rents, or a cash contribution to fit-out or similar costs.

Loan-to-value ratio (LTV)
Drawn debt net of cash divided by the fair value of the property portfolio. Drawn debt is equal to drawn facilities less cash and the unamortised equity element of the convertible bonds.

Mark-to-market
The difference between the book value of an asset or liability and its market value.

MSCI Inc. (MSCI IPD)
MSCI Inc. is a company that produces independent benchmarks of property returns. The Group measures its performance against both the Central London Offices Index and the UK All Property Index.

National Australian Built Environment Rating System (NABERS)
This is a building performance rating system which provides an energy performance benchmark using a simple star rating system on a 1-6 scale. This helps property owners understand and communicate a building's performance versus other similar buildings to occupiers. Ratings are validated on an annual basis.

NAV gearing
Net debt divided by net assets.

Net assets per share or net asset value (NAV)
Equity shareholders' funds divided by the number of ordinary shares in issue at the balance sheet date.

Net debt
Borrowings plus bank overdraft less cash and cash equivalents.

Net interest cover ratio
Net property income, excluding all non-core items divided by interest payable on borrowings and non-utilisation fees.

Property income distribution (PID)
Dividends from profits of the Group's tax-exempt property rental business under the REIT regulations.

Non-PID
Dividends from profits of the Group's taxable residual business.

Real Estate Investment Trust (REIT)
The UK Real Estate Investment Trust ("REIT") regime was launched on 1 January 2007. On 1 July 2007, Derwent London plc elected to convert to REIT status.

The REIT legislation was introduced to provide a structure which closely mirrors the tax outcomes of direct ownership in property and removes tax inequalities between different real estate investors. It provides a liquid and publicly available vehicle which opens the property market to a wide range of investors.

A REIT is exempt from corporation tax on qualifying income and gains of its property rental business providing various conditions are met. It remains subject to corporation tax on non-exempt income and gains e.g. interest income, trading activity and development fees.

REITs must distribute at least 90% of the Group's income profits from its tax exempt property rental business, by way of dividend, known as a property income distribution (PID). These distributions can be subject to withholding tax at 20%.

If the Group distributes profits from the non-tax exempt business, the distribution will be taxed as an ordinary dividend in the hands of the investors (non-PID).

Renewable Energy Guarantees of Origin (REGO)
The REGO scheme administered by Ofgem provides transparency to consumers about the proportion of electricity that suppliers source/provide from renewable generation.

Rent reviews
Rent reviews take place at intervals agreed in the lease (typically every five years) and their purpose is usually to adjust the rent to the current market level at the review date. For upwards only rent reviews, the rent will either remain at the same level or increase (if market rents are higher) at the review date.

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs)
The regulations place a legal duty on employers to report work-related deaths, major injuries or over-three-day injuries, work related diseases and dangerous occurrences (near miss accidents) to the Health and Safety Executive.

Reversion
The reversion is the amount by which ERV is higher than the rent roll of a property or portfolio. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of space that is vacant and available to occupy or under development or refurbishment.

Scrip dividend
Derwent London plc sometimes offers its shareholders the opportunity to receive dividends in the form of shares instead of cash. This is known as a scrip dividend.

Streamlined energy and carbon reporting (SECR)
The SECR regulations were introduced in April 2019 and require companies incorporated in the UK to undertake enhanced disclosures of their energy and carbon emissions in their financial reporting.

Task Force on Climate-related Financial Disclosures (TCFD)
Set up by the Financial Stability Board (FSB) in response to the G20 Finance Ministers and Central Bank Governors request for greater levels of decision-useful, climate-related information; the TCFD was asked to develop climate-related disclosures that could promote more informed investment, credit (or lending), and insurance underwriting decisions. In turn, this would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

'Topped-up' rent
Annualised rents generated by the portfolio plus rent contracted from expiry of rent free periods and uplifts agreed at the balance sheet date.

Total property return (TPR)
Total property return is a performance measure calculated by the MSCI IPD and defined in the MSCI Global Methodology Standards for Real Estate Investment as 'the percentage value change plus net income accrual, relative to the capital employed'.

Total return
The movement in EPRA Net Tangible Assets per share on a diluted basis between the beginning and the end of each financial year plus the dividend per share paid during the year expressed as a percentage of the EPRA Net Tangible Assets per share on a diluted basis at the beginning of the year.

Total shareholder return (TSR)
The growth in the ordinary share price as quoted on the London Stock Exchange plus dividends per share received for the year, expressed as a percentage of the share price at the beginning of the year.

Transmission and distribution (T&D)
The emissions associated with the transmission and distribution losses in the grid from the transportation of electricity from its generation source.

Underlying portfolio
Properties that have been held for the whole of the year (i.e. excluding any acquisitions or disposals made during the year).

Underlying valuation increase
The valuation increase on the underlying portfolio.

Well to tank (WTT)
The emissions associated with extracting, refining and transporting raw fuel to the vehicle, asset or process under scrutiny.

Yields

- **Net initial yield**

Annualised rental income based on cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased by estimated purchasers' costs.

- **Reversionary yield**

The anticipated yield to which the net initial yield will rise once the rent reaches the estimated rental values.

- **True equivalent yield**

The constant capitalisation rate which, if applied to all cash flows from the portfolio, including current rent, reversions to valuers' estimated rental value and such items as voids and expenditures, equates to the valuation having taken into account notional purchasers' costs. Rent is assumed to be received quarterly in advance.

- **Yield shift**

A movement in the yield of a property asset, or like-for-like portfolio, over a given period. Yield compression is a commonly-used term for a reduction in yields.

28. Copies of this announcement will be available on the Company's website, www.derwentlondon.com, from the date of this statement. Copies will also be available from the Company Secretary, Derwent London plc, 25 Savile Row, London, W1S 2ER.

Notes to editors

Derwent London plc

Derwent London plc owns 83 buildings in a commercial real estate portfolio predominantly in central London valued at £5.4 billion (including joint ventures) as at 31 December 2020, making it the largest London-focused real estate investment trust (REIT).

Our experienced team has a long track record of creating value throughout the property cycle by regenerating our buildings via development or refurbishment, effective asset management and capital recycling.

We typically acquire central London properties off-market with low capital values and modest rents in improving locations, most of which are either in the West End or the Tech Belt. We capitalise on the unique qualities of each of our properties – taking a fresh approach to the regeneration of every building with a focus on anticipating tenant requirements and an emphasis on design.

Reflecting and supporting our long-term success, the business has a strong balance sheet with modest leverage, a robust income stream and flexible financing.

As part of our commitment to lead the industry in mitigating climate change, Derwent London has committed to becoming a net zero carbon business by 2030, publishing its pathway to achieving this goal in July 2020. In 2019 the Group became the first UK REIT to sign a Revolving Credit Facility with a "green' tranche. At the same time, we also launched our Green Finance Framework and signed the Better Buildings Partnership's climate change commitment. The Group is a member of the 'RE100' which recognises Derwent London as an influential company, committed to 100% renewable power by purchasing renewable energy, a key step in becoming a net zero carbon business. Derwent London is one of only a few property companies worldwide to have science-based carbon targets validated by the Science Based Targets initiative (SBTi).

Landmark schemes in our 5.6 million sq ft portfolio include 80 Charlotte Street W1, Brunel Building W2, White Collar Factory EC1, Angel Building EC1, 1-2 Stephen Street W1, Horseferry House SW1 and Tea Building E1.

In January 2021, Derwent London came top of the Property Sector and 10th position overall in Management Today's Britain's Most Admired Companies awards 2020. In the year the Group has won several awards for Brunel Building with the most prominent being the BCO Best Commercial Workplace award. In 2019 the Group won EG Offices Company of the Year, the CoStar West End Deal of the Year for Brunel Building and Westminster Business Council's Best Achievement in Sustainability award. In 2013 the Company launched a voluntary Community Fund and has to date supported well over 100 community projects in the West End and the Tech Belt.

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of its registered office is 25 Savile Row, London, W1S 2ER.

For further information see www.derwentlondon.com or follow us on Twitter at @derwentlondon

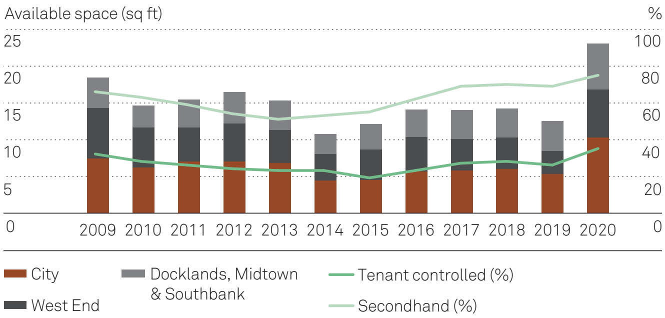
Forward-looking statements

This document contains certain forward-looking statements about the future outlook of Derwent London. By their nature, any statements about future outlook involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Actual results, performance or outcomes may differ materially from any results, performance or outcomes expressed or implied by such forward-looking statements.

No representation or warranty is given in relation to any forward-looking statements made by Derwent London, including as to their completeness or accuracy. Derwent London does not undertake to update any forward-looking statements whether as a result of new information, future events or otherwise. Nothing in this announcement should be construed as a profit forecast.

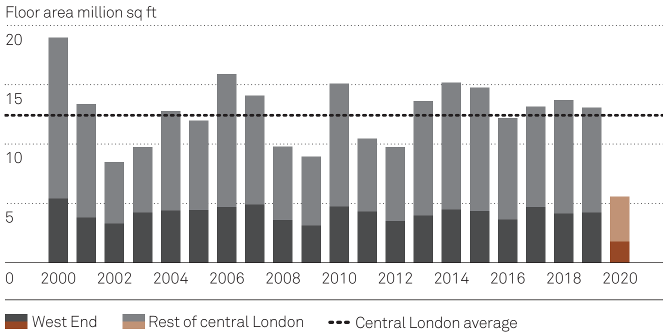
Appendix 1
Our market

Breakdown of available space



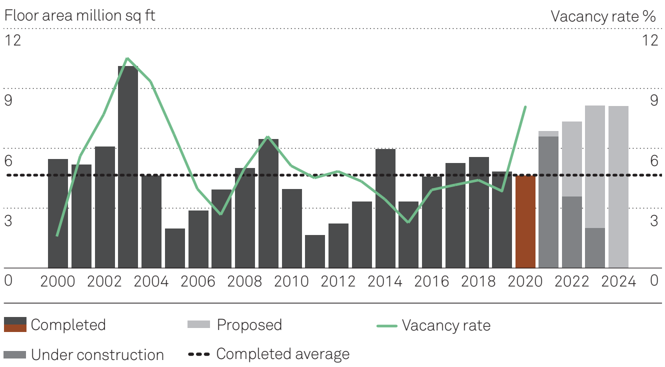
Source: CBRE

Central London office take-up



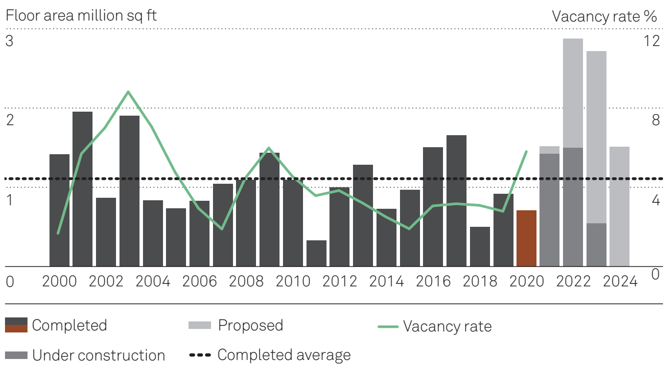
Source: CBRE

Central London development pipeline



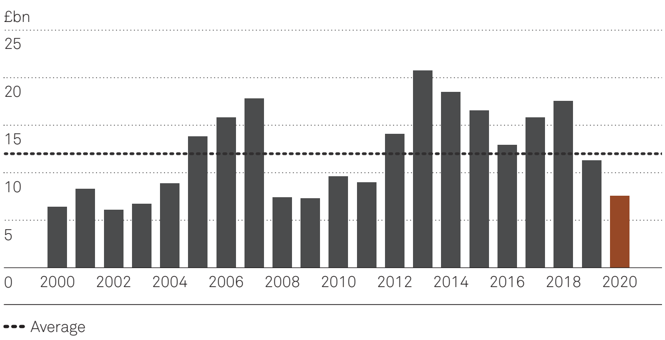
Source: CBRE

West End office development pipeline



Source: CBRE

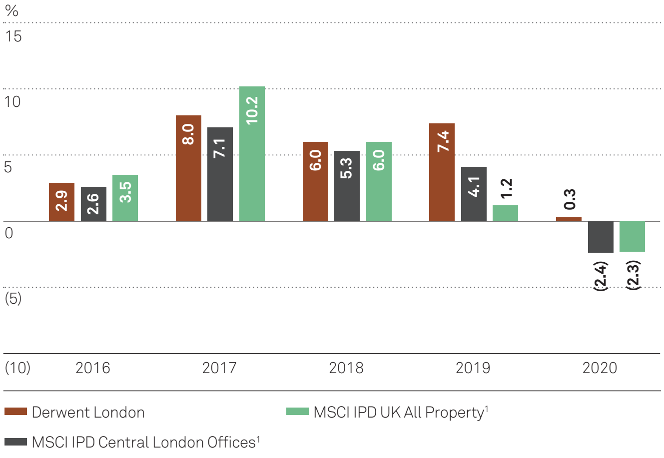
Central London office investment transactions



Source: CBRE

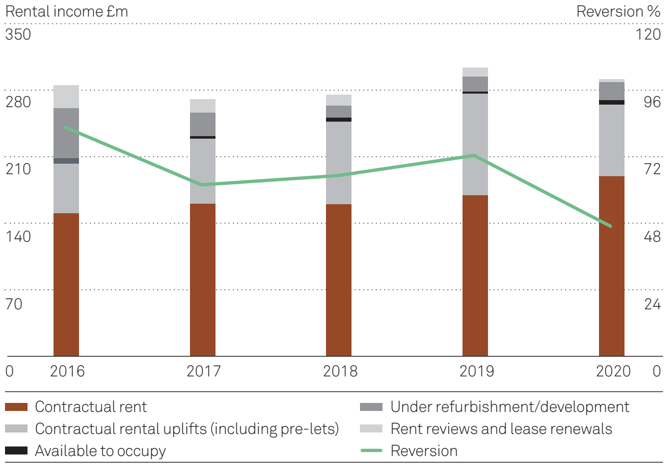
Appendix 2
Valuation

Total property return

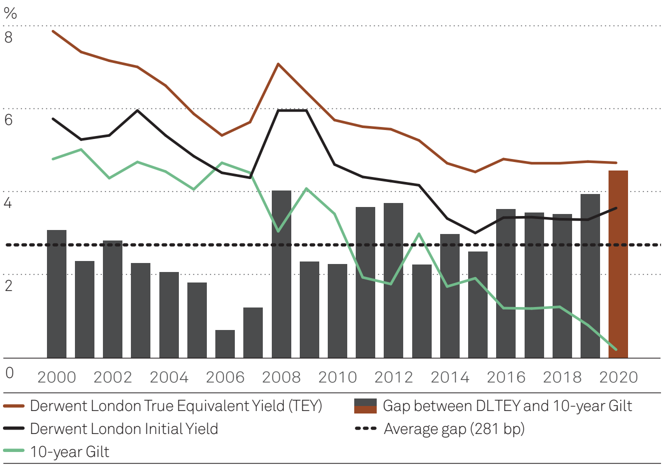


¹ Quarterly Index

Portfolio income potential



Valuation yields



Appendix 2
Valuation

Portfolio statistics – valuation

		Valuation £m	Weighting %	Valuation[1] performance %	Let floor area[2] '000 sq ft	Vacant available floor area '000 sq ft	Vacant refurbishment floor area '000 sq ft	Vacant project floor area '000 sq ft	Total floor area '000 sq ft
West End									
Central		3,013.6	56	(2.9)	2,553	51	48	106	2,758
Borders		475.4	9	(5.8)	546	8	0	0	554
		3,489.0	65	(3.3)	3,099	59	48	106	3,312
City									
Borders		1,789.8	34	(2.1)	1,668	106	6	125	1,905
Central London		5,278.8	99	(2.9)	4,767	165	54	231	5,217
Provincial		76.7	1	(11.2)	343	4	0	0	347
Total portfolio	**2020**	**5,355.5**	**100**	**(3.0)**	**5,110**	**169**	**54**	**231**	**5,564**
	2019	5,475.2	100	3.9	5,333	53	10	240	5,636

1 Underlying – properties held throughout the year
2 Includes pre-lets

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		189.2
Contractual rental increases across the portfolio	58.0	
Contractual rental from 249,000 sq ft pre-lets on developments	17.0	
Letting 169,000 sq ft available floor area	5.0	
Completion and letting 54,000 sq ft of refurbishments	2.7	
Completion and letting 231,000 sq ft of developments	16.2	
Anticipated rent review and lease renewal reversions	3.1	
Portfolio reversion		102.0
Potential portfolio rental value		291.2

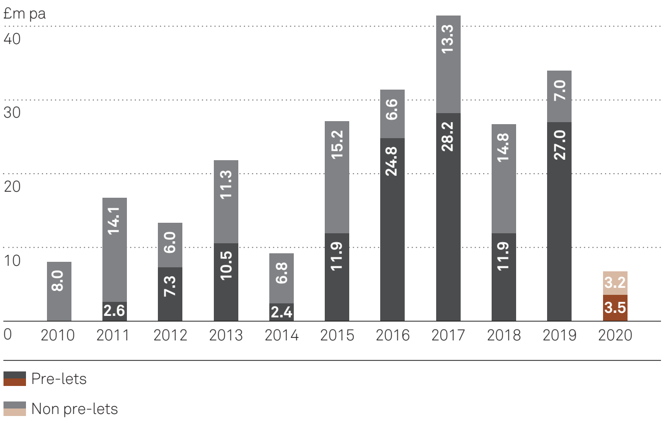
Portfolio statistics – rental income

		Net contracted rental income per annum £m	Average rental income £ per sq ft	Vacant space rental value per annum £m	Lease reversion per annum[1] £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[2] Years
West End							
Central		86.3	34.09	13.1	62.0	161.4	7.0
Borders		23.1	42.38	0.2	4.1	27.4	7.0
		109.4	35.55	13.3	66.1	188.8	7.0
City							
Borders		75.1	45.74	10.5	12.0	97.6	5.2
Central London		184.5	39.12	23.8	78.1	286.4	6.3
Provincial		4.7	13.60	0.1	0.0	4.8	3.4
Total portfolio	**2020**	**189.2**	**37.40**	**23.9**	**78.1**	**291.2**	**6.2[3]**
	2019	169.1	32.11	18.3	115.6	303.0	5.8

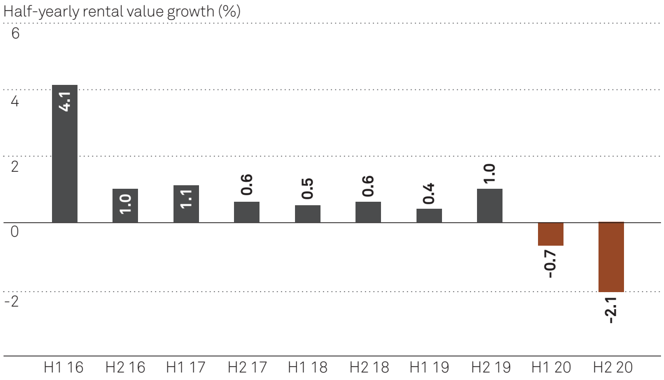
1 Contracted uplifts, rent reviews/lease renewal reversion and pre-lets
2 Lease length weighted by rental income at year end and assuming tenants break at first opportunity
3 7.9 years after adjusting for 'topped-up' rents and pre-lets

Appendix 3
Asset management and Investment activity

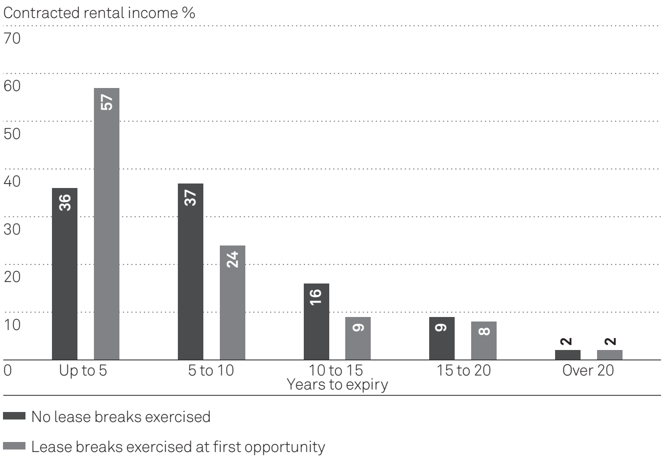
Letting activity by rental income



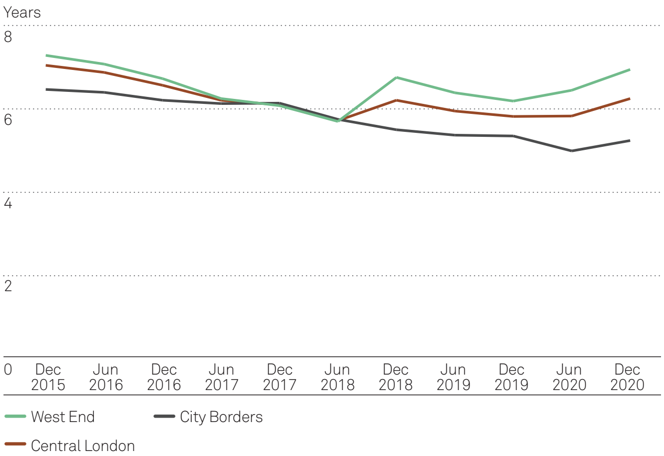
Rental value growth



Profile of rental income expiry

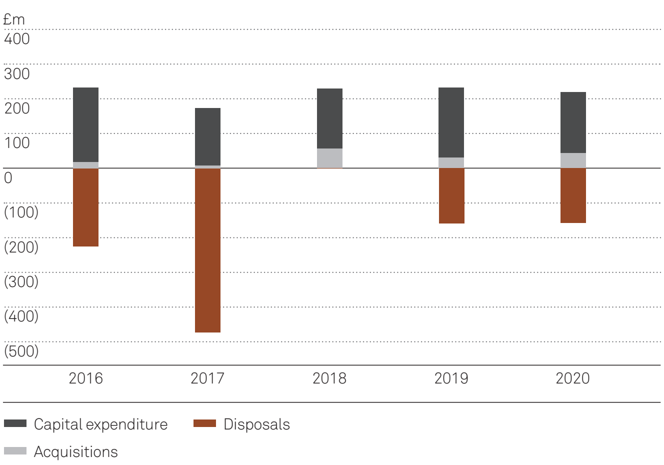


Average unexpired lease length



Five-year vacancy trend

Net investment



Appendix 4
Development and refurbishment

Project summary – current projects

Property	Current net income £m pa	Pre scheme area '000 sq ft	Proposed area '000 sq ft	2021 capex £m	2022 capex £m	2023+ capex £m	Total capex to complete £m	Delivery date	Current office c.ERV psf
On-site projects									
Soho Place W1[1]	–	107	285	74	78	–	152	H1 2022	£92.50
The Featherstone Building EC1	–	69	125	32	5	–	37	H1 2022	£70.00
6-8 Greencoat Place SW1	–	32	32	5	–	–	5	H1 2021	£70.00
Francis House SW1	–	40	38	11	3	–	14	H1 2022	£65.00
	–	248	480	122	86	–	208		
2021 projects									
19-35 Baker Street W1[2]	3.4	143	297	16	43	206	265	H1 2025	£90.00
	3.4	391	777	138	129	206	473		
Planning and design	–	–	–	2	1	–	3		
Other	–	–	–	31	12	5	48		
	3.4	391	777	171	142	211	524		
Capitalised interest	–	–	–	13	4	15	32		
Total	3.4	391	777	184	146	226	556		

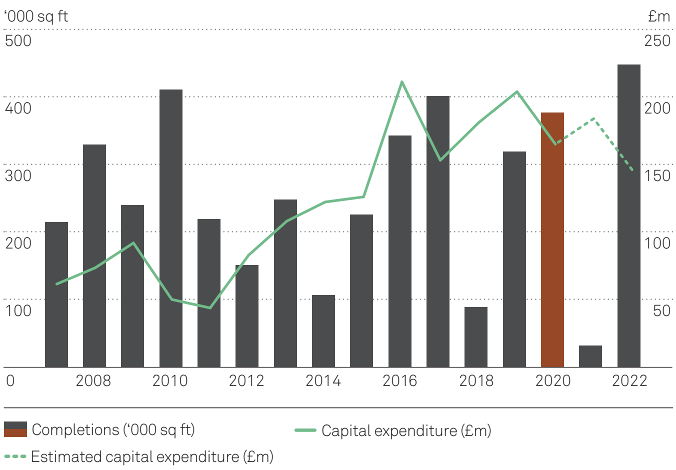
1 Includes remaining site acquisition cost and profit share to Crossrail
2 Includes 88-100 George Street, 30 Gloucester Place and 69-85 Blandford Street. Currently Derwent 55%, The Portman Estate 45%

Project summary – future projects

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Earliest possession year	Comment
Consented					
Holden House W1	4.4	90	150	2025	
	4.4	90	150		
Under appraisal[1]					
Angel Square EC1	5.0	126	140	2021	Refurbishment
Network Building W1	4.3	70	130	2022	Redevelopment
Bush House WC2	-	103	103	TBC	Refurbishment
Blue Star House SW9	0.7	54	110	2025	Redevelopment
Other	2.6	72	72		Principally 1 Oliver's Yard EC1
	12.6	425	555		
Consented and under appraisal	17.0	515	705		
On site and 2021 projects	3.4	391	777		Previous table
Pipeline	20.4	906	1,482		

1 Areas proposed are estimated from initial studies

Completions and capital expenditure

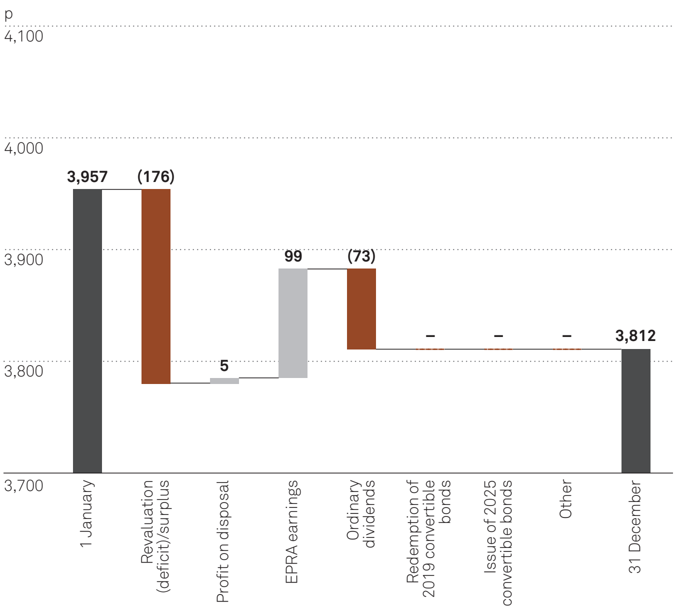


Appendix 5
Finance

Financial highlights

	2020	2019
Total net assets	£4,315.1m	£4,476.9m
EPRA NTA per share	3,812p	3,957p
Property portfolio at fair value	£5,355.5m	£5,475.2m
Gross property and other income	£268.6m	£230.3m
Net rental income	£174.3m	£178.0m
IFRS (loss)/profit before tax	(£83.0m)	£280.6m
EPRA earnings per share (EPS)	99.19p	103.09p
Interim and final dividend per share	74.45p	72.45p
LTV ratio	18.4%	16.9%
NAV gearing	24.3%	21.9%
Net interest cover ratio	446%	462%

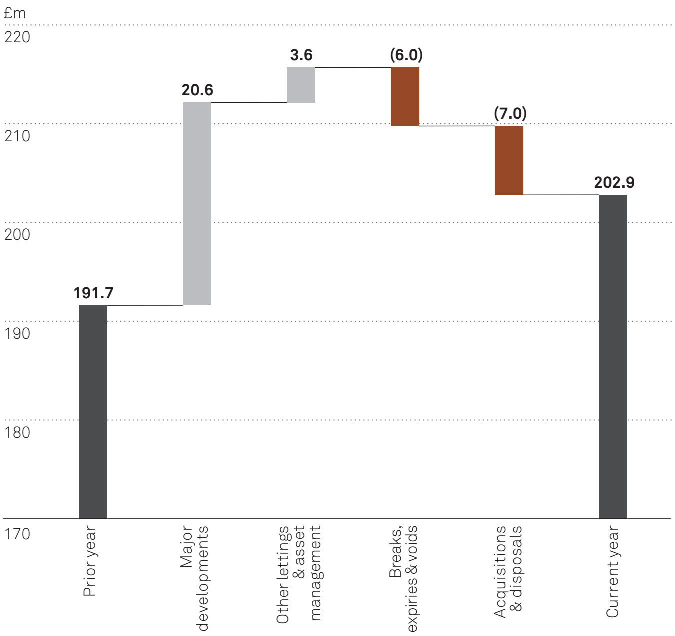
EPRA net tangible assets per share



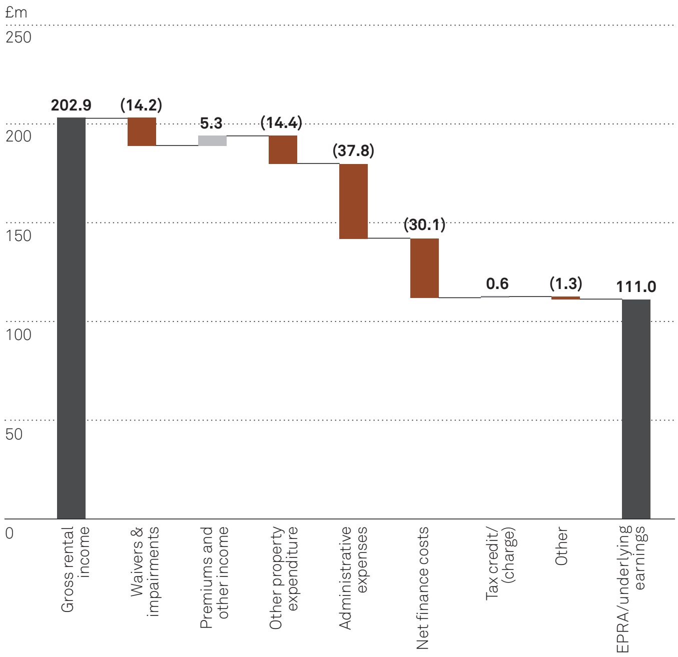
2019	3,775	139	14	103	(68)	(8)	7	(5)	3,957

Appendix 5
Finance

Gross rental income



EPRA earnings



2019	191.7	–	4.6	(13.7)	(37.0)	(26.5)	(2.0)	(2.0)	115.1

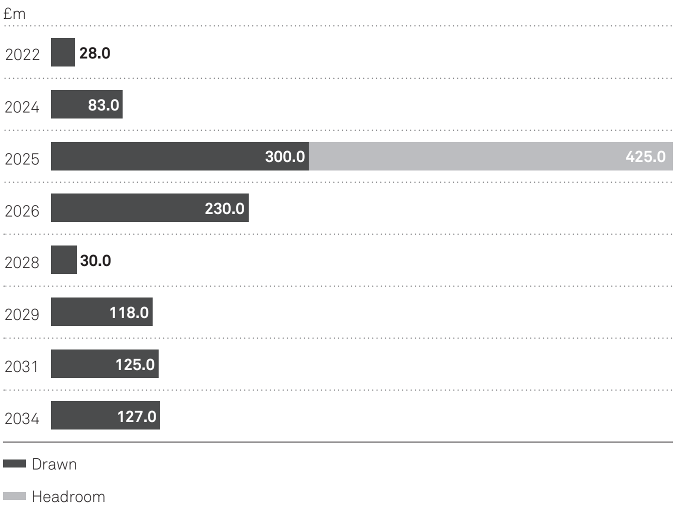
Cost ratios

	2020 %	2019 %
EPRA cost ratio, incl. direct vacancy costs	30.5	23.9
EPRA cost ratio, excl. direct vacancy costs	26.0	22.5
EPRA cost ratio, incl. direct vacancy costs (without impairments & waivers)	23.4	23.9
EPRA cost ratio, excl. direct vacancy costs (without impairments & waivers)	19.0	22.5
Portfolio cost ratio, incl. direct vacancy costs	1.1	0.8

EPRA like-for-like rental income

	2020 %	2019 %
(Decrease)/increase based on gross rental income	(0.9)	4.4
(Decrease)/increase based on net rental income	(9.8)	4.7
Decrease based on net property income	(8.9)	(7.2)

Maturity profile of debt facilities as at 31 December 2020



Appendix 5

Finance

Debt facilities and reconciliation to borrowings and net debt at 31 December 2020

	Drawn £m	Undrawn £m	Total £m	Maturity
6.5% secured bonds	175.0	–	175.0	March 2026
3.99% secured loan	83.0	–	83.0	October 2024
1.5% unsecured convertible bonds	175.0	–	175.0	June 2025
2.68% unsecured private placement notes	55.0	–	55.0	January 2026
3.46% unsecured private placement notes	30.0	–	30.0	May 2028
4.41% unsecured private placement notes	25.0	–	25.0	January 2029
2.87% unsecured private placement notes	93.0	–	93.0	January 2029
2.97% unsecured private placement notes	50.0	–	50.0	January 2031
3.57% unsecured private placement notes	75.0	–	75.0	May 2031
4.68% unsecured private placement notes	75.0	–	75.0	January 2034
3.09% unsecured private placement notes	52.0	–	52.0	January 2034
Non-bank debt	888.0	–	888.0	
Bilateral term – secured	28.0	–	28.0	July 2022
Bilateral revolving credit – unsecured	25.0	75.0	100.0	November 2025
Club revolving credit – unsecured	100.0	350.0	450.0	October 2025
Committed bank facilities	153.0	425.0	578.0	
Debt facilities	1,041.0	425.0	1,466.0	
Acquired fair value of secured bonds less amortisation	9.3			
Equity adjustment to convertible bonds less amortisation	(5.8)			
Unamortised issue and arrangement costs	(11.3)			
Borrowings	1,033.2			
Leasehold liabilities	66.6			
Cash and cash equivalents	(50.7)			
Net debt	**1,049.1**			

Debt: key stats

	2020	2019
Hedging profile (%)		
Fixed	85	90
Swaps	0	3
	85	93
Percentage of debt that is unsecured (%)	73	71
Percentage of non-bank debt (%)	85	90
Weighted average interest rate - cash basis (%)	3.34	3.54
Weighted average interest rate - IFRS basis (%)	3.48	3.68
Weighted average maturity of facilities (years)	6.2	6.8
Weighted average maturity of borrowings (years)	6.8	7.8
Undrawn facilities and cash	476	511
Uncharged properties	4,329	4,423